PRUDENT MARKET POLICY NOW

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and BUSINESS ANALYST

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CONSUMER SPENDING and INDUSTRIAL OVER-CAPACITY
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By WARD GATES

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Typical American Family

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are among the 1,625,000 share owners of A. T. & T. They are men and women in all walks of life in 22,000 communities throughout the land

THE POSTMAN RINGS 1,625,000 TIMES with A.T.&T. dividend checks. Women are the largest group of share owners and own the most stock. . . . In addition to direct owners of A.T.&T. securities, millions of other people have an important interest through the holdings of their insurance companies, pension funds, mutual funds, unions, savings banks, etc.

When the postmen of this country set forth with mail for the owners of the American Telephone and Telegraph Company they visit a tremendous number of homes. The quarterly dividend, for instance, is delivered to more than 1,625,000 share owners.

Dividends are important to the Smiths and the Browns and the Joneses and all the other A.T. & T. share owners. They are important to telephone users too.

Without dividends on stock and interest on bonds there would be no investors. And without investors there would be no telephone service as you know it today. The money they entrust to us goes into more and better service for you.

The distribution of the A.T. & T. dividend to so many people in 22,000 communities is in itself a factor in the over-all economy of the country. Yet the total, though considerable, is small compared to other sums that flow out from the business.

Last year, for example, the Bell System paid more than twice as much in taxes as it paid A.T. & T. share owners in dividends. It thus provided nearly a billion and a half dollars for the support of city, state and federal governments.

Wages, of course, are the biggest item. In the Bell System they are billions of dollars more than the entire net income of the business. In 1958 Bell System wages totaled over $3,700,000,000 . . . the nation's largest business payroll.

Thousands of other jobs in other companies were made possible by our large purchases from outside sources.

Last year the Bell System's manufacturing and supply unit, the Western Electric Company, bought from more than 30,000 firms throughout the country. Nine out of ten were small businesses, each with fewer than 500 employees. This year again we expect to buy over a billion dollars worth of raw materials, parts and services from other companies.

It is natural and logical to expect big figures in a business that serves more than 55,000,000 telephones and handles over 200,000,000 calls a day.

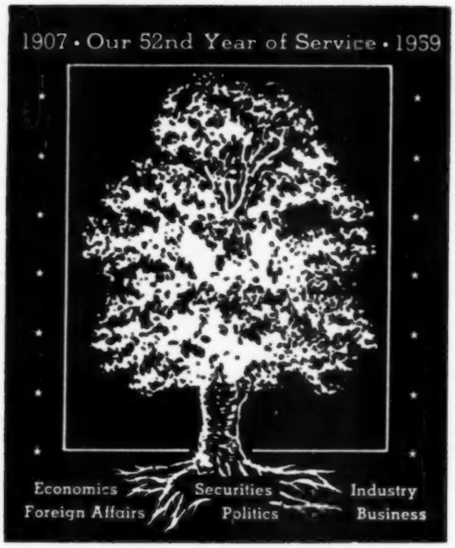
The important thing is to relate the size of the figures to the size of the need and the job. And to realize how the very size of the business contributes to the prosperity of millions of people and the economy of the whole country.

It is an example of free enterprise at work for the good of all.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

BLUFF AND FRAUD . . . It seems a pity that the interesting and talented Russian people should be represented by men who have spent their lives in shoddy and destructive activities to gain their ends, rather than in constructive effort that builds confidence and goodwill.

A current example is the Soviet Exhibition at the Coliseum in New York, where we find the use of the same cheap tactics in making claims of industrial achievement that has been true of every exhibition since the World Fair in Paris—where the Russians showed automobiles without a motor, and at the Exhibition in Flushing Meadows, where murals depicted the non-existent happy life in Russia—trying to make us believe that the people live in charming homes surrounded by gaiety and plenty. And at the Brussel's Fair too, when two newspaper men, greatly admiring what they called a "magnificent" truck, lifted up the hood and found it had no motor!

Today, despite thir latest claims of industrial superiority, comparable to that of the United States, the articles which they display belie these purported gains. In every instance, the products about which I made an inquiry or asked the price on — were found to be merely exhibition pieces, made at great expense, for which there was no production in Russia—except, as the attendant sheepishly informed me "were made only for Government use".

It is now easy to understand why the Russian people questioned our capacity to supply in quantity the modest priced homes we have on display in Moscow. They apparently are fully cognizant of the Russian method of making specially crafted items, which are not produced commercially. It is for that reason that we have suggested that American exhibitors at the Soviet Fair in Moscow take orders for fulfilment, to prove to these people that our claims are genuine and that the picture we present of the American people owning their own homes, automobiles, good clothing, is not fantasy, but is a reality in the United States.

The principles of Communism as we understand them are designed to create a society in which the great mass of people share equally or in accordance with their needs. This is a far cry from the system under which the Russian people are living.

On the contrary, the Soviet Government has betrayed the people's trust and kept them on an underprivileged standard of living these many

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

years. Instead of working toward the goal of a better life for the population, it has spent the huge sums available to them for exploring outer space—the advantages of which are nebulous, and behind which is only a propaganda motive.

I doubt whether Mr. Khrushchev cares about the well-being of the people, since he is clearly using the adventures into the stratosphere mainly as a means for exerting pressure on the Western countries to submit to his demands—or be obliterated by Russian space weapons.

Ever since I visited Russia it has been my belief that the claims of the Soviet masters are a snare and a delusion, and that their stratosphere armaments would disintegrate in the atmosphere before they ever hit the earth. In fact, there are a great many who have declared all along that Russian claims in this field have to a large extent been pure fakery. We are taking the Kremlin bluff and bluster much too seriously.

We should use the opportunity afforded by their exhibition at the Coliseum to let in light on the Soviet technique of the "Big Lie" by exposing the fact that their goods are like stage props, designed to present an appearance of accomplishment that is non-existent. And, at the same time, we should prove to the Russian people that our exhibits represent products manufactured in quantity in the United States that are available to them and to the rest of the world.

We should not permit the Soviet propagandists to distract us by their projections in the cultural field—remembering that the superb Bolshoi Ballet is also a show piece, which the Communists have adapted from Czarist times—for Russian music, ballet and folk-dancing have been outstanding for several centuries, long before the Communists ever came into power.

The Communists have made no real contribution to society, and the Soviet hierarchy is guilty of spreading degeneracy in ethics in dealings between individuals and nations. To them an honest man is a fool, and to be tricky is considered "smart"—and they put their ideas across with the bluff and brazenness that always goes with gangsterism.

Mr. Kozlov and the Russian Press

I wonder whether Mr. Kozlov's visit to this country will bring back to Russia a better understanding of the real United States? During his trips around the country, it is reported, especially from Chicago, that the Soviet photographers sat idly through miles of prosperous suburbs, fine homes, beautiful country and modern plants, but were busy cranking their machines whenever they passed through a slum area adjacent to a manufacturing district. Undoubtedly a lot of these photographs will be used to offset any impressions of the high standard of living Americans enjoy that will be created by our Exhibition at the Fair in Moscow. Certainly the press in Russia has not altered its reports on the desperate conditions of our unemployed since Mikoyan's visit, although he saw for himself how utterly false this was. The Soviet Government is just as afraid of the truth about the United States as they are about the better life West Berliners are enjoying, as compared with the subsistence level under which the East Germans exist.

We must find a way to let the Russian people know that the consumer goods which we exhibit are available to them—that they can buy them and have them delivered,—whether by direct order at the Fair or through mail order catalogs.

GENEVA AND N.A.T.O. . . . To what extent distrust of Britain is responsible for the Western disunity at Geneva is clearly pointed out in the "Manchester Guardian Weekly" of July 2, 1959, which says:

"Why has the British Government been reluctant to agree to a meeting of N.A.T.O.'s Ministerial Council before the resumption of the Geneva talks? Both Italy and Belgium have asked for it. Italy, it seems, is now to be appeased by an invitation to her Foreign Minister to meet his three Western colleagues in Geneva just before July 13. That compromise, suggested in Rome by General de Gaulle, naturally does not satisfy Belgium and possibly some other N. A. T. O. members. The arguments against a Ministerial meeting have been that it would give the impression of disunity; that it might over-dramatise the Geneva talks; and that it might too closely limit the Western negotiating position during the second round of talks with the Russians. Only the last of these points has any force, and that should be weighed carefully against the even more dramatic revelation of disunity that would result from any subsequent controversy over the line taken by the three Western Powers . . . Our allies have an obvious and indisputable right to be informed and consulted, not merely separately but in common council, so that they can share in policy making. That is the basis of the alliance. Continued refusal to let them do so will merely feed existing suspicions.

"Unhappily, it is a fact that there is distrust—or, at least deep uneasiness—about the British attitude among our Continental allies. It is widely believed, however unjustly, that Britain wants a summit meeting at almost any cost—not because of its inherent merits but as an achievement to be presented at a general election in October. Or, to put it more strongly, it is thought that the British Government is ready to subordinate the interests of the alliance to its own electoral chances. Against this background, General de Gaulle can push on with his plans for an inner alliance between Paris, Rome, and Bonn.

". . . And a good many people on the Continent who reject the ancient notion of British perfidy still fancy that we are inclined to be naive, overconfident, and given to wishful thinking when it comes to dealing with the Russians. Some British comments — although not official ones — can be quoted with good effect to support these views. The eagerness with which they accept Mr. Gromyko's assurances that his master's threats are not threats, and that his ultimatums are not what they seem to be, suggests to some Continental observers that we are prepared to let faith triumph over experience in settling the Berlin question. In these circumstances, it is not sufficient to convince Mr. Herter of the purity of our motives and the correctness of our attitudes . . . The Foreign Ministers not present at Geneva want to hear for themselves what the principals have to say and want to offer their own views on the balance to be struck between firmness and elasticity."

We hope that the British Government will heed the words of the "Manchester Guardian", so that Act II at Geneva will have a happy ending.

As I See It!

by Charles Benedict

ARE DE GAULLE'S DELUSIONS OF PERSONAL GRANDEUR THWARTING HIS AMBITIONS FOR HIS BELOVED FRANCE?

TO understand the complex nature of the man, one must read his book—"The War Memoirs of Charles De Gaulle". It is very revealing, and shows up an individualism that is quick to take offense, interpreting failure to accept any of his ideas as personal affronts, distrustful of those who are tactful in dealing with him, attributing slights where offense was never intended, and harboring a grudge to eternity.

It is recognition of these characteristics that enables us to understand his refusal to act in concert with his NATO partners, and his demand that he be permitted to make independent decisions regarding the basing of atomic weapons in France.

His independent attitude is to a large extent based on the 'slights' he believed he received from Prime Minister Winston Churchill and President Franklin D. Roosevelt during the conduct of World War II. Both, it seems, were always stepping on his toes.

An insight into his thinking is shown in an item in his book, in which he refers to a visit and conversation he had with President Roosevelt, which took place in the White House—and the charming note he received after the presentation of a toy submarine, a mechanical marvel made by a worker in the Bizerte arsenal. He particularly calls attention to the photograph the President included, and which was inscribed—"To General De Gaulle, who is my friend!"

Pulling rank

The episode that follows gives you a very interesting sidelight on De Gaulle, for it makes one wonder whether he had a personal spy in the American government, maybe in the President's office. The fact that he printed this story indicates that he considered it "correct" to do so, although it indicts him personally for having truck with what he calls an "anonymous informer". The paragraph from page 272 of his book follows the reference to the inscription the President wrote on his photograph:

"Later, however, an anonymous source sent me a photostatic copy of a letter Roosevelt had written, eight days after my departure, to Congressman Joseph Clark Baldwin. In it the President alluded to some shady American deal with the French Compagnie Generale Transatlantique" and warned his correspondent to be careful I did not get wind of it, for once I was informed I would not fail to liquidate the company's director. In his letter, Roosevelt further formulated his estimate of myself and our meetings: "De Gaulle and I," he wrote, "have examined in outline the subjects of the day. But we talked more deeply about the future of France, its colonies, world peace, etc. In relation to future problems he seems quite 'tractable', from the moment France is dealt with as a world power. He is very touchy in matters concerning the honor of France. But I suspect that he is essentially an egoist." I was never to know if Franklin Roosevelt thought that in affairs concerning France Charles De Gaulle was an egoist for France or for himself."

After reading the book, in which practically throughout he refers to himself in the third person, one is lead to believe that the President's estimate of De Gaulle was exactly correct.

It is a great pity that this should be so, because it is more important than ever for General De Gaulle to work in harmony with his Western allies. Up to now, I had always believed that his love of France was responsible for his intransigence during the war; but after reading his book, I have come to the conclusion that De Gaulle should not represent France in the field of foreign negotiations, that he can serve his country best on the home front.

From his book it seems that his ego is greater even than his love for France, and in dealing with the outside world he can only hurt rather than help the country he loves.

Prudent Market Policy Now

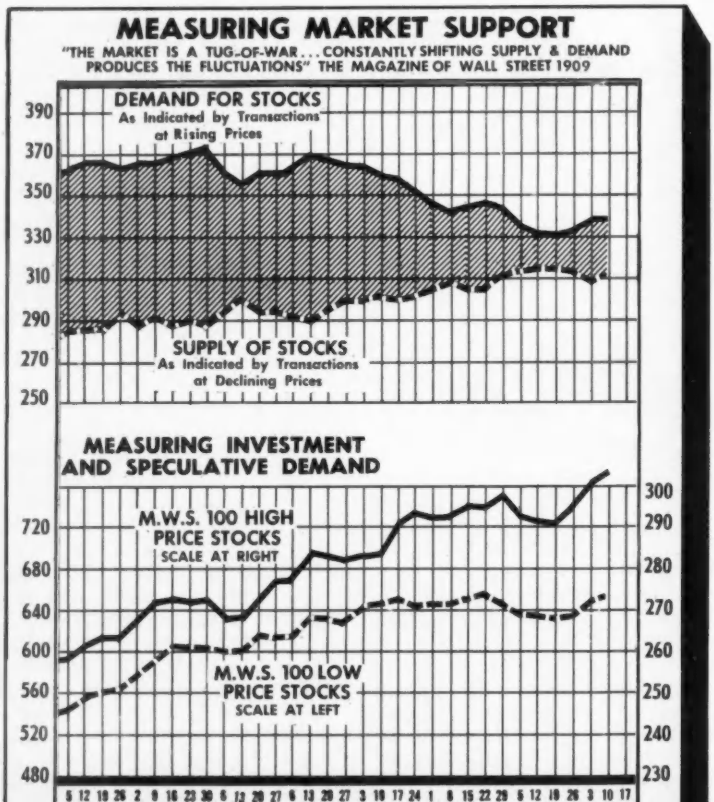
As we go to press at the brink of the steel decision, it looks as though negotiations have fallen through. And, stocks, after a display of real power last week, have lost momentum and quality of leadership, and now show indications of having about exhausted their bullish ingredients for the first leg of a summer advance, suggesting need of a period for consolidation of substantial gains. The precipitent rise in ten consecutive sessions of advancing prices indicates that industrial improvement and excellent earnings may have been largely discounted in the advance of blue chips to new highs—but we must still reckon with the inflationary outlook. A shift in institutional demand from equities to bonds offering much higher yields is well worth watching for as a clue to the stock market activity.

By Robin De Mille Wyckoff

Sparked by broad mid-year demand, the stock market pushed ahead briskly in the last fortnight, lifting the industrial average some 40 points from the intraday low of June 23rd to a high that achieved a gain of some 6%. It is rare that the market scores a swift upturn of such magnitude.

Demand converged on best grade issues and carried many leaders to new highs. Subsequently, as volume of dealings expanded, interest shifted to popular speculative issues favored chiefly by short-term traders intent on realizing capital gains.

Strength in late June and July is not unusual, since reinvestment demand frequently is stronger at this time of year than at other intervals. Moreover, prospects for mid-year earnings reports in many areas are mort promising than expected. Nevertheless, the picture of leading industrial stocks at new highs for the year on the eve of a threatened industrywide strike in the nation's steel mills, idling thousands of workers, seemed incongruous to many in this setting.



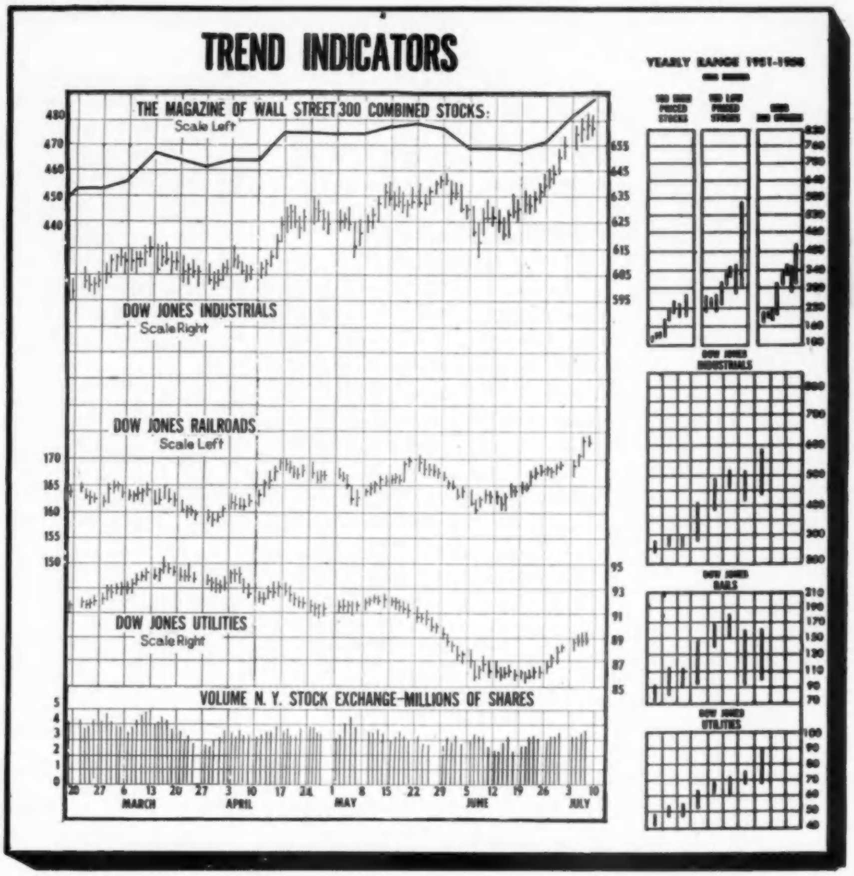
Hope of Sane Steel Settlement

Two factors appear to have motivated demand for stocks in the face of a possible industrial shut-down. In the first place, management negotiators adopted a firmer attitude than ever before. Their strong resistance to agreement on any formula involving higher manufacturing costs, bolstered by White House proposals for "economic statesmanship" in reaching a settlement without recourse to a strike, altered the pattern of talks followed in 1952 and in 1956. Portfolio managers seemed convinced a new contract would be written that would enable the steel industry to avoid price increases such as were necessitated in the past, and to take steps toward meeting foreign competition. Hope of successfully curbing uneconomic wage demands in other industries through a sensible compromise in steel constituted a second favorable influence on sentiment.

If, with the help of the Washington Administration, the inflationary spiral can be retarded, industrial managements would feel more confident of undertaking capital spending programs aimed at reducing production costs and retail selling prices so as to stimulate trade. The result would mean reinstatement of a vigorous economy, accompanied by higher employment and

greater personal income, without the disadvantage of currency depreciation through inflation. Enlarged corporate profits would contribute to higher tax revenues and permit the Treasury to restore a balanced budget—and even to reduce its topheavy deficit. Inability to curb powerful union demands would certainly pose a threat to profit margins later in the year.

Need for taking a stand against mounting production costs in the steel industry is illustrated by *Department of Commerce statistics showing a rise in imports of steel products last April for the fifth consecutive month. The figures revealed that in the last twelve months the tonnage of steel imports had risen about 25 per cent, while our exports to overseas markets had slumped 30 per cent. Exports last year declined to about half the total for 1957, government statistics revealed, while imports last year registered an increase of about one-third over the previous year.*



Impressive Industrial Recovery

Extent of the potential national growth that may take place in a revival of capital spending can be visualized in a comparison with Gross National Product measurements. Figures gathered by government agencies for June and for the first half of 1959 will be making their appearance shortly. They are likely to reveal a significant advance in the G.N.P. for the June quarter, perhaps to an all-time high of about \$475-\$480 billion, or within striking distance of the \$500 billion forecast of a few years ago that semed fantastic at the time. Compare the figure for the second quarter with the annual rate of \$427 billion recorded in the March quarter of last year, representing the low point of last year's recession. This suggests the extent and rapidity with which industrial activity has recovered in a little more than a year.

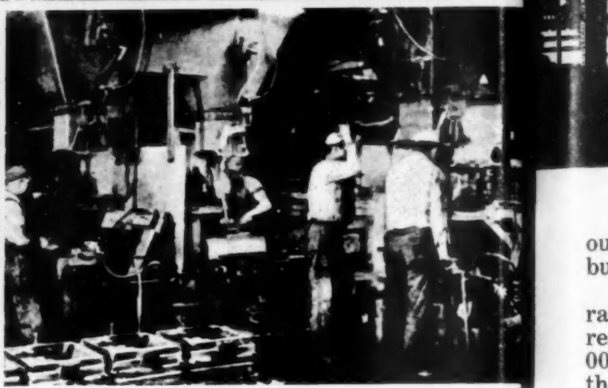
Statistics more readily understood and appreciated by investors will be coming to light in the next two or three weeks testifying to generally favorable business conditions in the June quarter, when midyear earnings statements of major corporations are released. The import of a strong comeback from last year's drab showing would be welcomed by stockholders, for wider coverage of dividend distributions encourages hope of more liberal payments later in the year.

Favorable Environment Discounted

Translating current events into an evaluation of market behavior, one must recognize that much of what is taking place in industrial improvement and excellent earnings has been discounted in the advance of stocks to new highs. The Industrial Average again has climbed to an unprecedented peak, surpassing the previous record reached at the end of May. A technical "confirmation" was provided last week when the Railroad index topped its previous best figure for the year reached in May. While this action reaffirms the uptrend that has prevailed for many months, it does not necessarily mean that the forward surge can continue at the pace prevailing in the last fortnight. Consolidation of gains would be logical, and this action is indicated by deterioration in the quality leadership last week.

With the economic picture showing indications of a possible change in important fundamentals, it would be well to watch for evidence of a shift in institutional demand from equities affording only a nominal return on the investment, to best grade bonds currently offering the best yields in a quarter of a century. Tentative indications of a change for the better may be noted as government obligations meet good support from day to day despite the imminence of another sizable Treasury offering.

Any significant increase in emphasis on low-priced stocks would be interpreted as an adverse omen suggesting a con- *(Please turn to page 528)*



Consumer Spending and Industrial Over-Capacity

—Is Stepped-Up Installment Credit the Answer?

By WARD GATES

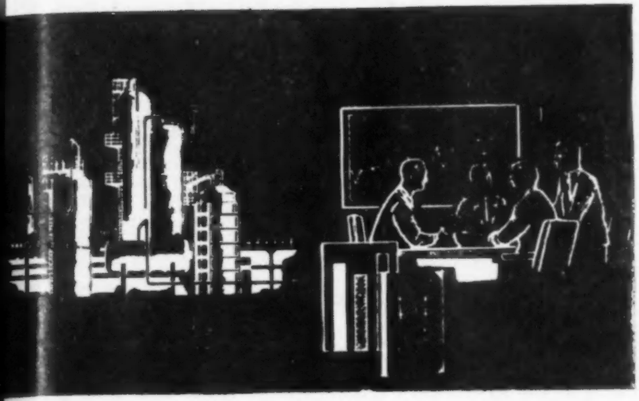
- **The part played by consumer and government spending—inventory accumulations—in raising the business level in early 1959**
- **Where over-capacity caused by heavy imports—and decline in export trade—cries for a solution**
- **Where excessive supplies bring declining prices and lower production**
- **Is new revolutionary type installment credit the answer looking to latter half—and into 1960?**
- **How much credit available for this purpose?**

THE most unique aspect of the current economic scene is that consumer spending, despite its rapid increase in recent months has still some distance to go if it is to maintain a dominant role in the recovery. This vital fact, which is so important and so little understood, may shape the entire business outlook in the final months of 1959 and the opening period of 1960.

Lest this statement sounds confusing to readers fed on headlines of rising auto, home building, and retail sales, it should be pointed out that in the boom year 1955, consumers spent over 14 percent of their disposable income on durable goods, yet today they are spending just about 12 percent, or only moderately more than the 11% they were paying out in the depths of the 1958 recession. Moreover, while department store sales, and other forms of retail spending are on the upgrade, merchants are still so insecure about the stability of consumer buying that they are shaving profit margins to encourage credit sales at a time when money is getting uncomfortably tight—and expensive.

Perhaps the effects of the recession are still too fresh in consumers' minds to warrant an uninhibited spending spree. But, whatever the cause, it is apparent from basic economic statistics that consumer spending will have to pick up more strongly if new trouble spots in the economy are to be forestalled.

So far, industrial inventory accumulations, now running at close to a $10 billion annual rate, have accounted for over half of the recovery in industrial



output, and soon most pipelines will be filled, unless buying is stepped up.

Auto sales, for example, are running at their best rate since 1955, but production is way ahead. As a result, dealer's inventories add up to almost 1,000,000 cars. Appliance sales are also more spirited than a year ago, but still most of the 10 percent increase in durables' production since January has gone into warehouses and other stages along the distribution line.

Actually, astute observers in both government and industry, are not worried that consumers will fail to increase their spending—but that they will not increase it enough to take up the slack that may show up later. For not only was the economy given an important filip by inventory accumulation in the first half of the year, but it also received an able assist from rapidly rising *government spending* and a whopping $12.5 billion federal deficit. During the latter part of 1958, federal outlays grew at a rate of $10 billion per year, but that rate is now slowing down to a growth rate of about one billion dollars per year. From the standpoint of fiscal stability this is all to the good, but it doesn't change the fact that the consumer—the largest single segment of the economy—will have to raise his spending rates considerably if he is to take up the slack.

Signs of Over-Capacity

It would be easy to concentrate only on the good news if there were not some signs of strain in the economy already, and several obvious examples of over-capacity. The most sensational recent instance is the collapse of prices on the west coast after a prolonged period of exceptional stability. Significantly, the collapse has occurred despite the fact that the decline in new housing starts (the principal market for plywood) has so far been moderate. In fact, at a rate of over 1,300,000 starts per year, it is not far below the record high. Yet plywood capacity has far outstripped housing. In 1950, for example, the level of new home building was roughly equal to today's, but plywood capacity was 2.5 billion square feet. Today's capacity adds up to over 7 billion square feet. True, more plywood goes into each new home today, but even at a 100 percent increase, the plywood industry would appear to have substantially more capacity than it needs until new uses are developed for the product. The proof is in the pudding, and plywood prices now are down to $76 per thousand square feet from $86 only two months ago.

In *copper*, price instability is once again pointing up the massive world-wide capacity of the industry at a time when our industrial output is skipping along at a record rate. Certainly there is no lack of demand for the red metal. There is just too much of the stuff for the market to absorb. Consequently, the price is again on the way down.

Without going into details, the same thing is true of *lead*, *zinc* and *sulphur*, a situation that has led to demands that the domestic industry be protected by tariffs, import quotas, or a combination of both.

In addition, the *oil* industry, which has been discussed adequately and often in *The Magazine of Wall Street* is suffering from a glut of crude output and weakening in the prices for end products as unsold stocks build up. In fact, gasoline supplies, which ordinarily dwindle at this time of year have been increasing despite higher sales to consumers, indicating that the industry's productive capacity is just too great for the domestic economy to absorb at this stage of the game.

The Unpredictable Consumer

What is most disturbing about these facts is that the normal rise in *consumer spending, as population and personal income rises, does not seem to be enough to absorb the increases in capacity in all industries*. Today, plywood, oil and metals producers are feeling the pangs of over-capacity. Tomorrow it could be the auto industry, appliance makers, textile manufacturers or any other industrial group. The situation, moreover, is aggravated by the decline in our exports as more areas of the world reach complete recovery from the ravages of war and are able to satisfy an increasing portion of their needs with domestic production.

The Hypo of Installment Credit

Accordingly, each industry serving the consumer is resorting more and more to credit schemes to induce the buyer to purchase its products. In the process, a decidely different pattern from the 1955 credit splurge is emerging. Consumers have been incurring new debts at a faster rate than they have been repaying loans, but in 1959, the debt build-up is spreading itself much more thinly throughout the economy. In addition to rising credit for new automobiles, the consumer is showing a greater susceptibility to advertising sales-pressure designed to attract the credit dollar into soft goods, services and recreation.

The effect of this changing debt pattern can be revolutionary. For one thing, the soft goods industry has little experience yet with the consumer who incurs a one year debt for an item that may be used up in weeks or months. How eager he will be to continue his payments for "past consumption" is still a big question mark. Perhaps the rotating credit plans devised by many department stores, to keep the buyer constantly in debt, yet eager to replace his soft goods in easy payments, will solve this prob-

lem but that remains to be seen.

What is most significant, however, is that such devices take dollars away from "big-ticket" purchases, and these are the loaded dollars that keep the heavy industry production wheels turning and the employment rolls high.

Similarly, "Fly Now — Pay Later" vacation schemes, which convert into long term debt, expenditures that traditionally have come out of current income, also tend to reduce consumer spending for durable goods.

In the early stages of a boom, current credit developments would not be considered serious. But today, the situation is complicated by two separate, but equally important factors. The first is the unpredictability of the consumer and his wide range of consumption choices. When large scale credit was confined to durable goods, it was fairly simple to predict where big spending outlays would be concentrated. But now, with bank-sponsored open end credit plans in which the consumer can incur any debt he chooses by merely writing a check; with the credit card mania running wild; and with virtually every industry pushing the consumer to incur debt, his spending can fall in any area.

Checking Avenues of Spending

How confusing this can be, is illustrated by figures on recreational spending recently released by the Federal Reserve Bank of Kansas City. These show that despite all the ballyhoo, consumer spending for recreation, as a percentage of total consumer income, has actually declined since 1947. However, within the category, while motion picture admissions were declining by over one-third, outlays for television sets and repairs (spurred by credit) rose from $140 million to almost $700 million currently.

This simple, and rather unsensational illustration points up sharply how over-capacity (in this instance movie theatres) can develop in particular industries even while spending remains high. All that is required is a small shift in consumer preferences.

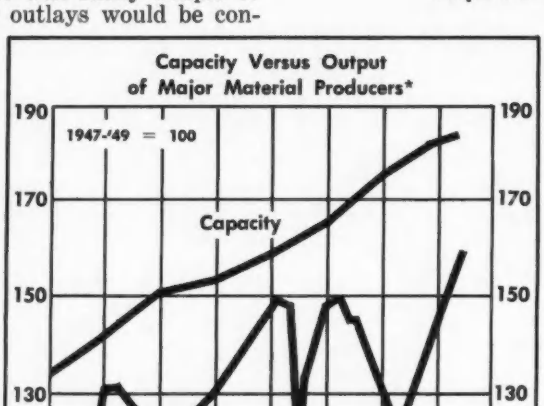
How Much Credit is Available?

By far the most important problem in this context, however, is the ability of the banking system to support the level of credit a real boom will require. This one factor has sufficient meat for a separate study, but it must be discussed here because it bears directly on the specter of over-capacity. For if bank credit dries up, so will consumer spending and industrial buying. Then our productive industries will be stuck with an enormous burden of unused capacity.

For perspective on this problem, it is necessary to recall that in August, 1954, the low point of the recession preceding the 1955 consumer splurge, the nation's banks were in a particularly liquid position and ideally situated to finance a boom. Loans outstanding and holdings of government securities were about equal at $56 billion. Today, however, although industry is not yet borrowing heavily, loans stand at about $80 billion and bank ownership of government securities is down to about $45 billion.

What this means is that even before a real credit build-up begins, the banks are loaned up to the hilt and may be very reluctant to sacrifice liquidity by advancing much more credit.

Corporate Financial Strength



So far the situation has not been acute because corporations have not been in the market for money to any appreciable extent. For one thing, they built up their own liquidity during the recession and in the initial stages of the recovery. Moreover, many major corporations, using enviable foresight, came into the market with bonds during 1958, using easy money conditions to build up their working capital positions in a period of low money rates. Consequently, they have not been forced to resort to bank loans or long term borrowing to finance the recovery in business.

But, if the resurgence continues, they will begin competing with the consumer for bank dollars, forcing the banks to look warily at their dwindling liquidity. The result will be much more selective credit, and higher interest rates. And this can cut off a boom with alarming suddenness.

Thus there is the distinct chance that the credit boom will peter out even faster this time than it did in 1956, leading to a repetition of the 1957-1958 pattern of over capacity and lower profit margins.

What About the Boom of the Sixties?

This discussion raises the whole question of how certain the expected boom of the Sixties actually is.

Certainly, it is too early to take issue with the validity of the long range predictions painting the Sixties as a new golden age. But the current trend of events does raise some questions in thoughtful minds which at least cast some doubts on the almost universal optimism about that period.

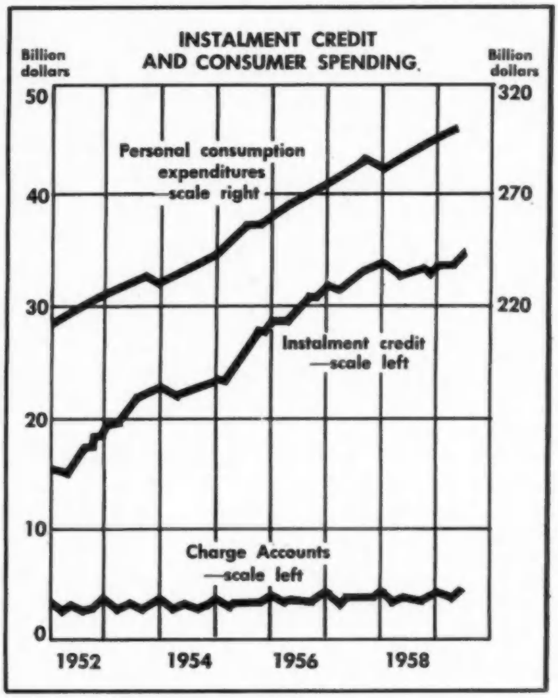
For one thing, much of the impending boom is based on a continuation of inflationary pressures. Yet, despite large increases in our population and rising consumer income there is still a surplus of

consumer goods. If this situation should continue for long, there is little doubt that deflation will set in.

As cited, deflation is already at work in our raw materials and building materials industries. Recently in fact, several of the largest producers of asphalt roofing tiles announced price cuts—not because of a decline in demand, but because competitive pressures stemming from massive overproduction, forced the action. Certainly, this condition can spread if consumer demand fails to advance by leaps and bounds.

In addition, the sharp recovery of business profits—which may reach $53 billion (after taxes) by year-end will swell the government's coffers and may actually lead to a balanced budget. If that happens, another principal inflationary stimulant will have been nullified.

It may be argued that the impending steel settlement may give inflationary pressures a strong push—and indeed it may. But the fact remains that the pattern in wage negotiations so far this year has been for substantially smaller pay increases than in former years. The total result, regardless of the steel settlement, will be far less inflationary than many suppose.



As a matter of fact, while consumer disposable income has been rising in the aggregate, per capita spending power has been dropping for over a year. There seems little chance that the steel settlement—or any other wage agreements this year, will change that picture. Thus, individuals can be expected to exercise some caution in their spending habits, and in the process impose some checks on inflationary trends.

In fact, deflation in various areas is already asserting itself through the factor of increasing over-production, as illustrated by the swift rise in inventories, and the efforts being made to find new markets to replace the loss of export trade on the one hand, and to make up for the heavy imports from abroad that are coming into this country on the other.

Not only does invasion of our markets by products from abroad reduce sales of domestic goods in the home market, but it has a doubly deflationary impact, since these goods undercut domestic prices. This has caused both merchants and manufacturers to lose sales to foreign competitors in Japan, West Germany, Britain and elsewhere.

The Key Factors of Import-Export Trade

To what extent our current over-capacity is a result of a 25% decline in our export trade is a matter that should be given the most careful consideration, because in the past our sales abroad have been an important element in keeping our factories busy and helped to maintain well-oiled financial machinery and profitable industrial operations—altogether making an important contribution to a healthy economy.

When this loss of trade occurs simultaneously with a heavy increase in imports from abroad in such important areas, for example, as automobiles, it gives us something to think about. For that reason, it is hoped by selling staffs that the heavy boost to business through installment credit will encourage consumer buying on a large enough scale to take up the slack, pending a more realistic adjustment of this situation. This is necessary because the possibilities for a further cut in our trade is most likely, as increased production abroad offers stronger competition in our natural export markets around the world.

The loss of business to foreign companies covers a wide range of products, from shoes from Japan that sell at a fraction of their cost in this country to heavy machinery. For example, General Electric, with the backing of the National Association of Electrical Manufacturers protested to the Government the purchase of heavy electrical equipment from abroad, but so far they have had no satisfaction. Many orders running into large figures have been lost in recent months because American companies were unable to meet the prices quoted by foreign manufacturers.

As the matter now stands, the possibility of an economic adjustment surely lies ahead, and must be considered in viewing the future.

In Conclusion

However, to deny the importance and impressiveness of the economy's recovery to date would be foolhardy. It would be just as foolish, however, to fail to cast a critical eye on the forces that are likely to shape future trends.

Investors must be constantly on their guard, since the stock market has a way of discounting basic changes long before they happen. At the moment, however, there is a likelihood that business may continue at a good level through the 1960 Presidential Election Year, but the wary investor must keep a weather eye cocked for signs of trouble.

It is possible—and to be hoped—that the uncomfortable signs of over-capacity, stringent bank credit and other potential checks to the boom will be overcome with ease. Certainly, there is ample evidence that the domestic economy has admirable vitality. Nevertheless, as pointed out here, there are plenty of danger signals that bear watching. END

★ 1959 Mid-Year Reappraisal.. ★
THE INVESTMENT APPEAL OF BANK STOCKS TODAY

By WILLIAM AMOS

EDITORS NOTE:
Mid-year 1959 finds the outlook for banks and bank stocks even brighter than it was at the beginning of the year. The prime lending rate has risen to 4½%, with some talk that it may even go higher as the peak borrowing season arrives later in the year. The banks are obtaining sharply higher yields on their short-term investments, and the total volume of earning assets is materially greater than it was before reserve requirements wre reduced in 1958.

EARNINGS figures for the first six months of 1959 show gains averaging about 8% for New York City banks. Most of these gains were achieved in the second quarter, since first quarter earnings for 1959 were about on a par with the first quarter of 1958. For the second half of 1959 the comparison of earnings with the last six months of 1958 should be more favorable than it was in the first half. Thus, the prospects favor over-all earnings gains for the New York City banks of about 15% for the year. For banks in other sections of the country the pattern will vary. Some banks will do better than the aforementioned 15% gain while others, for one reason or another, may not do as well. In general, the percentage gain in average earnings of New York City banks this year is likely to be larger than the average earnings gain of the interior banks. However, over the longer range future the superior rate of growth in deposits of banks in the far west, the southwest and the mid-west should produce better long-term earnings increases for those banks.

Improved earnings and better earnings prospects already have been reflected to some extent in higher market prices for bank stocks. Some banks also have raised dividend rates or announced stock dividends. A continuation of the uptrend in earnings may well be expected to result in more dividend increases. Thus while yields based on current dividends appear to be on the low side, averaging under 4%, potential increases in dividends could material-

Statistical Data on Leading Bank Stocks

	Total 6/30 1959	Deposits 12/31 1958	Loans & 6/30 1959	Discounts 12/31 1958	U. S. Gov't Securities 6/30 1959	U. S. Gov't Securities 12/31 1958	Per Share Book Value 6/30/59	Earnings Per Share* 12 Mos. Ended 6/30/59	Earnings Per Share* Calendar Year 1958	Indicated Current Dividend	Recent Bid	Dividend Yield
	(Millions)											
American Trust, San Francisco	$1,676	$1,673	$ 964	$ 895	$ 416	$ 489	$ 43.19	$ 4.26	$ 3.97	$ 1.60	63	2.54%
Bank of America, San Frs'co	10,173	10,307	6,087	5,662	2,073	2,398	24.31	3.13	3.01	1.80	47¾	3.77
Bank of New York	504	543	271	267	98	96	199.07	17.70	17.22	10.00	275	3.64
Bankers Trust, New York	2,657	2,779	1,524	1,391	505	629	68.12	5.82	5.47	3.00	87¾	3.42
Chase Manhattan, New York	7,134	7,386	3,988	3,807	1,380	1,506	48.92	4.35	4.25	2.40	62⅛	3.86
Chemical Corn Exchange, N. Y.	3,050	3,174	1,636	1,524	474	586	47.37	4.46	4.25	2.40	61⅞	3.88
Continental Illinois, Chicago	2,349	2,555	1,180	1,066	593	816	87.98	**	7.80	4.00	126	3.17
Crocker-Anglo National Bank	1,564	1,527	930	815	423	448	23.27	2.36	2.30	1.20	34⅜	3.49
First National City, New York	7,067	7,009	4,082	3,836	1,293	1,512	62.86	5.17	5.02	3.00	79⅝	3.78
First National Bank of Boston	1,643	1,653	995	943	271	374	64.85	6.60	6.50	3.30	89½	3.69
First National of Chicago	2,563	2,706	1,355	1,488	669	769	213.62	**	19.42	8.00	324	2.47
Hanover Bank, New York	1,621	1,713	940	898	346	438	43.84	3.59	3.52	2.00	54⅜	3.68
Irving Trust, New York	1,677	1,775	885	837	413	493	26.81	2.70	2.59	1.60[1]	39⅞	4.01
Manufacturers Trust, New York	3,080	3,258	1,378	1,268	767	865	45.11	4.31	4.07	2.20	54	4.07
Mellon National, Pittsburgh	1,820	1,834	988	969	449	502	113.05	**	8.36	4.00[1]	150	2.67
Morgan Guaranty Trust, N. Y.	3,334	3,496	1,984	2,068	704	804	67.80	5.05	5.13	4.00	102¼	3.91
National Bank of Detroit	1,799	1,766	695	673	571	661	47.33	4.75	4.73	2.00[1]	54½	3.67
New York Trust	749	891	418	375	168	199	72.22	6.57	6.26	3.75	105½	3.55
Security-First Nat'l, Los Angeles	3,177	3,087	1,386	1,273	1,206	1,265	39.01	3.77	3.59	1.60	59½	2.69

*Net operating or indicated earnings. **—Not available. [1]—Plus stock.

ly advance these yields. Furthermore, the rates at which present prices of bank stocks capitalize earnings (the price-earnings ratios) are not considered to be high in comparison with most other stock groups, which, as we well know, are in the main at inflated levels.

Banks Show Strong Earnings Trend

During the decade of the 1950's, the record of earnings growth of the nation's banks has been impressive. For the large New York City banks, aggregate net operating earnings have risen an average of approximately 10% per year in each year since 1950 and such earnings are now more than double their level of the latter year. With dividends now averaging 58% of earnings as compared with about 65% in 1950 and 1951, there is room for dividend increases.

It is true that a large part of the *earnings gain of New York City banks during the past decade can be attributed to a doubling of money rates, and it is not safe to assume that interest rates will again double in the next ten years.* However, a number of favorable factors give promise of being operative with respect to both the New York City banks and to banks in other parts of the country during the decade of the sixties. Some of these factors are:

1. Assuming continuation of a high rate of general business activity in the next few years, the demand for bank credit will remain strong, and it would be reasonable to assume that interest rates will continue to rise, with deposits and earnings assets of the banks both increasing.

2. New banking legislation which has already passed both houses of the congress and is expected to be enacted into law soon, will make possible a substantial increase in bank earnings assets by redefining reserve requirements. Two important parts of this legislation involve (a) provision for the inclusion of vault cash in reserves and (b) the gradual elimination of the reserve differential between the so-called Central Reserve Cities of New York and Chicago and the other Reserve Cities. Today, banks in the Central Reserves Cities are required to establish reserves equal to 18% of their demand deposit liabilities while Reserve Cities need to put up only 16½% of demand deposits as reserves. The elimination of this differential might give the New York and Chicago banks substantially more earning assets by freeing a portion of their reserves.

3. With respect to the New York City banks there is also the possibility that the next session of the New York State legislature will expand the present banking districts so that banks in New York City will be able to become affiliated with banks in adjacent fast growing suburban counties. The so-called Omnibus Banking Bill which would have achieved this objective, was defeated at the last session of the legislature, but it is reported that the Rockefelled Administration will lend strong support to similar legislation at the next session.

Growth Prospects For the Western Banks

Banks in such states as California, Oregon and Washington benefit through state-wide branching powers. This, coupled with the rapid economic development of the western areas, has given banks in the outlying sections better long-range growth pos-

sibilities than the eastern banks. These banks have better opportunities to expand their deposits than do the banks which are presently confined to the five boroughs of New York City. For the investor who is primarily interested in capitalizing on long term growth, the stocks of such banks as Bank of America, Security First National Bank of Los Angeles, American Trust of San Francisco or others might be considered most desirable. However, it should be pointed out that there are some disadvantages in the out-of-New York bank stocks as well as attractive features. Some of the disadvantages are as follows:

1. Generally the growth bank stocks provide lower yields and sell at higher premiums in relation to book value.
2. The need for capital and therefore the possibility of dilution through sale of additional shares is greater for the out-of-New York banks.
3. Marketability is poorer for the out-of-New York bank stocks since floating supplies of stocks tend to be low. The spread between the bid and the asked price is wider than for the New York bank stocks so that often it is more costly to make a purchase and complete a sale of some of the out-of-New York bank stocks.
4. Banks on the Pacific Coast generally are savings banks as well as commercial banks, and so higher interest rates tend to raise costs by requiring higher interest payments on savings accounts. *In some instances 40 to 50% of the total deposits of Pacific Coast banks represent savings accounts while the percentage for New York City banks approximates 20—25%.*

Special Characteristics of Bank Stocks Noted

Bank stocks have a number of built-in hedge qualities as investments. In other words, whether interest rates are rising or falling there tend to be compensating factors at work with respect to the banks and their equities. Of course a period such as the present, when interest rates are rising, gives the greatest stimulus to net operating earnings. And improved earnings are the primary basis for higher bank stock prices and dividends. However, higher interest rates do often mean declining bond prices, with the result that many banks show losses in their bond portfolios. Higher interest rates also mean tighter credit control and imposed restraints by the Federal Reserve Board on deposit expansion. Thus earning assets are held down. Last year when there was a recession, credit controls were relaxed so that earnings assets of banks increased. This policy, of which the reduction in reserve requirements was a part, made it possible for the banks to maintain total earnings in spite of the decline in loans and in the rates of interest earned on loans and investments. In addition, the banks generally realized portfolio profits on their sales of securities during the first half of 1958.

BUSINESS LOANS OF WEEKLY-REPORTING MEMBER BANKS (in millions)

	In Leading Cities	In New York City
June 24, 1959	$31,980	$11,091
December 31, 1958	30,797	10,991
December 31, 1957	31,801	11,699
December 26, 1956	30,848	11,471
December 28, 1955	26,673	9,173
December 29, 1954	22,486	7,568
December 30, 1953	23,380	8,530
December 31, 1952	23,390	8,735
December 26, 1951	21,592	7,933
December 27, 1950	17,839	6,305
December 28, 1949	13,904	4,851
Increase, 12/28/49 to 6/24/59	130.0%	128.6%

Trend Toward Economies in Operations

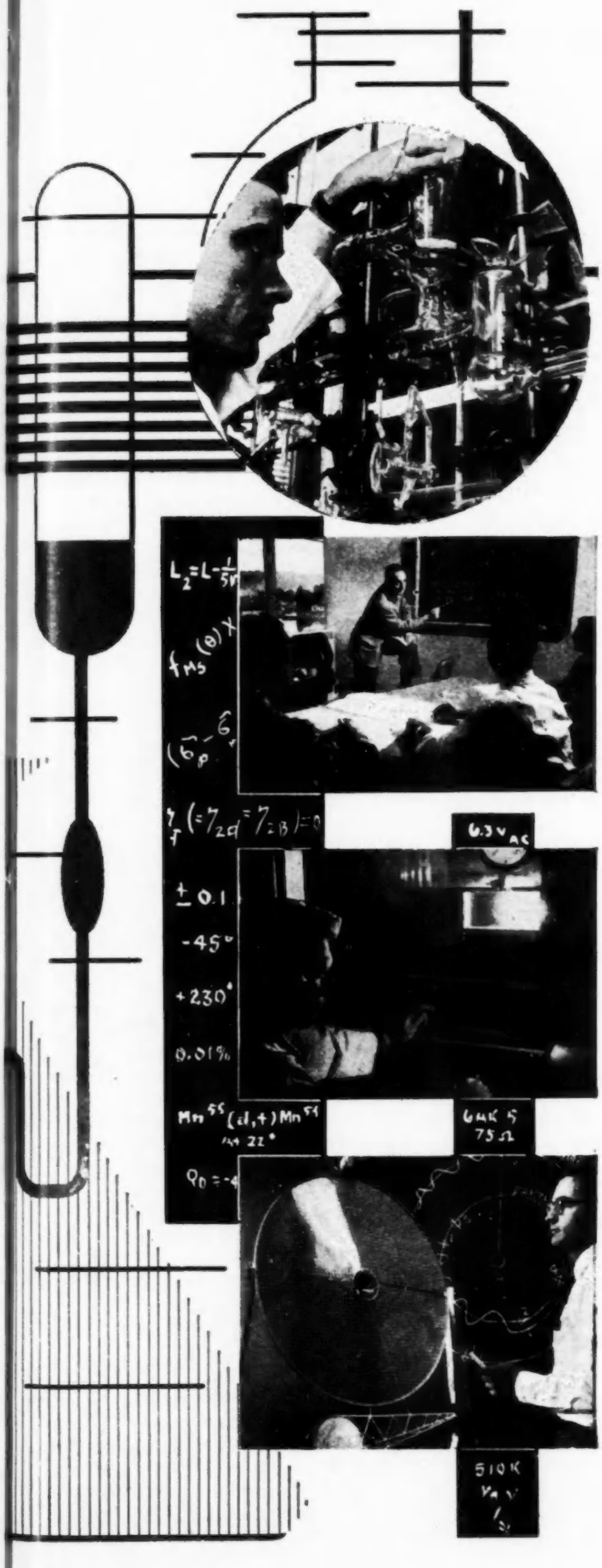
While the banks have achieved substantial benefits from mechanization of operations, the potentialities of savings in operating costs from greater utilization of data processing equipment are believed to be large. Whether some of these savings only result in keeping costs from rising more rapidly, or whether they actually result in reduced expenses remains to be seen. It is noted, however, that at the end of 1958 the total number of employees of several of the New York City banks was less than at the end of 1957. Furthermore, for one bank, at least, the total amount deducted for wages, salaries and employee benefits was lower than it had been the year before. This was not due to reductions in salaries but apparently was related to greater efficiency of operation. It is believed that eventually the use of magnetic ink on bank checks will make it possible to process checks much more efficiently than at present with the use of high speed electronic machinery. This is one principal area in which savings in operating expenses probably can be achieved in substantial size.

Expanding Bank Services

Under today's conditions of prices, high wages, high taxes, and large budget deficits, more money and credit is needed than ever before to accomodate the expanded needs of industry and commerce. It is estimated that close to 90% of the country's money used in settling business transactions is bank check money. The 14,000 commercial banks in the United States play an increasingly important role in our economy. As suppliers of short-term credit and as performers of a multitude of banking and trust services, they are well-nigh indispensable to the effective functioning of America's enconomy. Those who can remember back to 1933, will recall how the nation's business practically ground to a halt during the bank holiday in the early part of that year. Today, just 26 years later, we find our banks in an immeasurably stronger position, attaining new peaks in loans and other earning assets, and providing an ever increasing number of services under conditions of rising interest rates.

How Banking Has Evolved Since 1940

Some investors tend to judge bank stocks by the experience of the depression years when banks were handicapped by the lack of loans and by artificially low interest rates. The 1940's brought World War II with a great step-up in the rate of business activity, but with Government deficit financing becoming an even greater factor in the banking business than it had been during the depression years. It was not uncommon in *(Please turn to page 525)*



THIS AGE OF MIRACLES RESHAPING THE AMERICAN ECONOMY

By ROBERT B. SHAW

► **With research and development as an anti-inflationary factor**

ONE disturbing economic factor of which no one, except possibly the unkempt hermit sitting in his lonely cave, can be unaware today is the accelerating inflationary trend. Like sin, this goes on even though everyone is against it. Inflation is ordinarily pictured as a jagged line constantly rising from left to right across a graph; it becomes personal and down-to-earth as we encounter it—whether in the increased price of a pair of shoes or a theatre admission.

But if inflation so far remains undefeated, there are, at least, powerful counter forces which have restricted its ravages and kept it under partial control. *Most important of these anti-inflationary weapons is probably research and development.* These twin endeavors are constantly creating new products and services, improving existing products, and reducing costs. *The result has been that the cost spiral has generally been confined below wage and salary boosts, so that all but a few unfavored occupational groups have enjoyed higher real purchasing power.* To use a common figure, the *typical American workman cannot only buy a given unit of food, clothing or shelter more cheaply in terms of hours of labor than the workman in any foreign country,* but he can also buy these items constantly cheaper in exchange for his own labor as time goes on.

This is not all. The prices of some goods and services have actually declined in absolute terms. The average residential charge for electric *energy in 1939 was 4.00¢ per kwh; today it is only 2.53¢.* To be sure, the average annual electric bill has more

than doubled during the same period, but this is because almost everybody has his house staffed with a corps of electric servants unknown twenty years ago. In fact, in many instances, higher prices reflect our higher living standards and the expanded use of many products, as well as improvement in quality and service.

For example the retail price of gasoline has increased 75% since before the war, but today's motor fuel is a considerably improved product with a higher octane rating. Similarly, monthly telephone bills have been boosted by periodic increases, but with many more persons "on the line"—around the country and around the world—each individual subscriber's instrument has become far more useful to him. This list of reduced prices, often concealed by unobtrusive improvements in quality, could easily be enlarged.

Continuing improvements and discoveries, sometimes abrupt and spectacular but more often gradual and unheralded, are an offset to inflationary trends and an inherent element of strength in our private enterprise system. Without these breakthroughs in products and processes, our economy would have bogged down long ago, with automobiles, telephones, electric lights and the like remaining the privileged possessions of only a few wealthy Americans. Needless to say it is these accomplishments that have made our system the envy of the world.

OUTLAYS FOR RESEARCH
(Million of Dollars)

Industry	1957	1958
Aircraft & Parts	2,340	3,120
Chemicals	568	601
Electrical Equip.	1,367	1,500
Fabricated Metals	193	200
Machinery	582	610
Paper	49	50
Petroleum	230	250
Primary Metals	120	125
Instruments	295	280
Rubber	76	78
Other Mfg.	930	900
All Manufacturing	6,935	7,990
Nonmfg. Industries	346	350
All Industries	7,280	8,340

If little else is certain in modern life, it can be taken for granted that industrial research and development will continue to produce new, and improved products within the capacity of our citizens to buy them. Total research expenditures by private manufacturing alone in the U. S. approximated $7 billion in 1957 (Magazine of Wall Street, January 31), and the pace of this activity is accelerating rapidly. Whereas the inventor was once a figure of mild ridicule, today he holds a position of firm respect.

But attention is too often focused upon the radical innovations and entirely new discoveries, particularly in glamour industries such as aviation, drugs and atomic energy. This may obscure the equally significant improvements of cost reductions in existing products and more familiar industries. Let us, therefore, pause to examine briefly ten recent technological breakthroughs which have been somewhat less conspicuous and yet have important implications for the industries involved as well as for our standard of living in general.

The New Revolutionary Process in Steel Making

It is not necessary to underline the importance of steel in our modern economy. But this essential metal has become so common that we tend to forget that it is the product of a relatively complex manufacturing process. One of the great breakthroughs of a century ago was the invention of the Bessemer process of steel-making. But this process may become obsolete, to be superseded by the new basic oxygen method. The Bessemer converter is a device for removing excessive carbon and other impurities left in the molten iron after its passage through the blast furnace. It has now been discovered that a jet of high purity oxygen directed at the center of the metal bath will convert the ore to steel considerably more rapidly and with higher chemical efficiency. Although this process was first introduced into the United States as long ago as 1937, it was considered merely experimental for fifteen years. Last year, however, more than one-half of the country's seven million tons of new capacity utilized this method, and **Henry J. Kaiser Co.**, which holds the domestic licensing rights, predicts that as early as 1966, 25% of the country's total steel-making capacity will be of the oxygen type.

Greater amounts of oxygen are also being used in blast furnaces and in the open hearth, an alternative for the Bessemer converter. These methods promise a sharply increased demand for the major suppliers of the purified gas, **Union Carbide, Air Reduction** and **Chemetron**, and also better sales for manufacturers of furnace lining materials, **Harbison-Walker, General Refractories** and **H. K. Porter.**

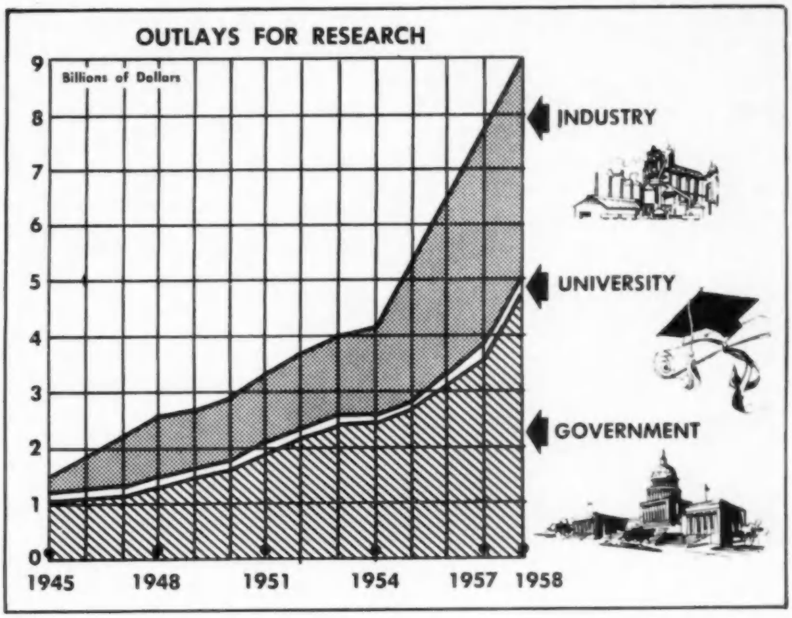
Life Means Continuing Change

It is not impossible that the blast furnace itself may eventually be outmoded and some process for the direct reduction of iron ore into steel substituted. The decline in the quality of domestic iron ore and an increased proportion of "fines" in imported ores, has already reduced the efficiency of blast furnaces unless the ore is "beneficiated" or "sintered" (compacted into larger lumps) in advance of charging. A direct reduction process would avoid this expense and also possibly make steel manufacturing on a smaller scale feasible which would, in turn, allow the utilization of presently marginal ore deposits. **United States Steel, Bethlehem** and **Republic**, the latter in conjunction with **National Lead**, are all experimenting with direct reduction methods.

Technological Advances in Mining Too

A second industry, closely allied with steel, namely coal, has also used innovations within the last several years that represent no less than a revolution in traditional mining methods. Until recently, although limited mechanization had been introduced, the mining process had remained essentially

unchanged for centuries. Sooty miners, lying in cramped positions, chipped away with hand tools at the face of narrow coal seams, and then loaded the dislodged chunks onto belts or tramcars. This tedious process confined output per man in underground mines, from which 75% of America's coal comes, to only 5 tons per shift as recently as 1949. Then, in 1955, a massive, Rube Goldberg-looking kind of machine, the "continuous miner," was introduced to combine the multiple operations of breaking coal from the face, picking it up, transporting it to the main haulage tunnels, and supporting the roof, into a single process. Already, in a few brief years, these machines, which can mine up to eight tons of coal per minute, account for 11% of total underground production. Mechanical cutting at the coal face is also employed for 74% of output. These rapid strides in mechanization have already lifted daily production per miner to eleven tons.



These developments have had, of course, significant effects upon the entire industry. Whereas coal was considered a dying industry a decade ago, its bituminous branch at least has enjoyed a marked rejuvenation. However, only the large companies can afford the massive new machinery, and this has led to a progressive reduction in the number of operators. Employment is also declining, but the surviving miners are coming into both safer and better paid jobs. The essential role of coal in the manufacture of steel, and in the generation of electricity indicates that this industry will enjoy an enduring demand for decades to come.

The originator of the "continuous miner" is **Joy Manufacturing.** At present, roughly 1,000 of these versatile machines are in use, and this number is expected to triple by 1965. **Link-Belt** is another important manufacturer of mining and conveying machinery. Another group of companies, like **Bucyrus-Erie,** serve the open-pit segment of the industry. The resuscitation of mining will also have an obvious effect upon the fortunes of the coal-carrying railroads, **Norfolk & Western** and **Chesapeake & Ohio.**

One Innovation Follows Another in the Oil Industry

To pass on to another fuel industry, petroleum refining has exhibited a constant improvement in yield which, although more evolutionary than abrupt, has been of extreme significance. In the pioneer days of the oil industry simple distillation provided only 20% gasoline, but since kerosene and lubricants were the desired derivatives and gasoline really a waste product, this process was quite adequate. The invention of the automobile, of course, changed this picture radically and the problem ever since has been to obtain constantly higher yields of gasoline. The most spectacular breakthroughs were Dr. Burton's discovery of the thermal cracking process in 1913, and Eugene Houdry's perfection of catalytic cracking in 1938. Still more recent is the appearance of catalytic polymerization. These processes have raised the crude oil yield of gasoline to as high as 50%.

Of course, this has been only one of a number of significant technical contributions by the petroleum industry. One that could conceivably take the spotlight in the future is the conversion of shale oil into refined products. Shale oil has been produced in limited qualities for years, but went into eclipse with the large discoveries of underground crude. With the increasingly high costs of replacing exhausted domestic reserves, however, shale could become an extremely valuable source of oil. Major deposits in this country are in Colorado and Utah, and the largest holders of shale reserves are **Union Oil of California, Standard of California** and **Getty.** The only commercial recovery of shale oil so far is a joint operation by **Standard of California** and **Barber Oil,** but many other companies have shown an active interest by buying up varying shale oil reserves.

The Alchemists and Magicians

The electronics industry has been a producer of miracles. The recent development of transistors has already been widely publicized, and yet is so important as to require at least brief mention here. Transistors are small semi-conductors consisting of wire "legs" and a lump of germanium or silicon treated with controlled impurities. Their function is to amplify currents; thus they are substitutes for vacuum tubes, with the strong advantages of compactness, response to a much smaller electrical charge, and non-generation of heat. In certain uses as, for example, hearing aids, these characteristics are of extreme importance.

The Bell Laboratories of **American Telephone** are credited with the invention of transistors, in 1948. Many electric and electronic companies are now active in their *(Please turn to page 518)*

Inside Washington

By "VERITAS"

DECISION against relocation of Federal Government agencies and personnel may mean that the idea of defense plant dispersal is to be dropped too. During several of the years following World War 2, the Department of Defense hammered away at the unwisdom of having heavy concentrations of material production, which would be "sitting ducks" for enemy air attacks. As emphasis increased there was talk that rapid tax write-off of capital investment would be denied if new facilities were to add to existing plant. Now it has become obvious to the defense and mobilization chiefs that the vast destructiveness of nuclear weapons has wiped out the protections of space. Government decentralization, accordingly, is out.

WASHINGTON SEES:

Behind the encouraging increase in Department of Justice activity in the field of criminal prosecutions and antitrust proceedings against overreaching union abuses is determination to use existing weapons which have proved effective rather than await the doubtful enactment by Congress of devices more finely tooled for use against malefactors.

It came as something of a surprise to the citizenry when the reign of Al Capone was broken by application of tax evasion statutes which had been regarded as useful only in the less dramatic business of collecting revenue and punishing an occasional wrongdoer. In the fraud scandals of 1940 which put several of Lousiana's "leading citizens" behind Federal penitentiary bars, the country became aware of a new depth dimension in the Postal Regulations.

Now attention turns to such statutes as the Hobbs Act. This covers interstate extortion by violence or threat of violence in violation of Taft-Hartley Act prohibitions against bribery in the management-labor relationship, against illegal combinations of labor and management to parcel out markets, and obstructions of justice. In the first six years of the Hobbs Act and T-H Act there were three convictions; in the past six there were 134 convictions. Additional indictments were returned, or asked, within the past few weeks.

KHRUSHCHEV'S statements since the first installment of the Foreign Ministers Conference ended, that he stands ready to compromise on the basis of take all and give nothing is setting up a job of major importance for Vice President Nixon to undertake when he goes to Moscow. Present indications and the most sanguine hopes give no basis for expectation of material change before Nixon arrives at the Kremlin. It may prove to be the opportunity of Nixon's lifetime, the insurance of his nomination for the Presidency, and even his election to the White House. On the other hand it could be his undoing. If Khrushchev treats him with the scorn he poured on Britain's Macmillan, the Vice President's prestige would suffer immensely.

WHITE HOUSE HANDLING of Nixon's Mission to Moscow could determine the success or failure of the effort. The Vice President must not, in the public mind, be burdened with the commission to bring order out of chaos in the diplomatic area. His responsibilities should be placed in the context of his power to act: since he will have little of the latter he should not be held to a high degree of achievement in the former. The Vice President is neither the head of state nor the diplomatic spokesman of this country. What Dulles and Herter couldn't accomplish across the table he must not be expected to do. From every angle, his trip is a risky project.

INCONSISTENCY runs through decision by Congress to create a new Federal reclamation project in California designed to put thousands of additional acres in cultivation at a cost of millions of dollars, at a time when billions are being spent to subsidize surplus farm production and to take crops and land out of today's deadly price competition. Interest-free loans repayable over a period of 50 years are to be available for the San Luis unit of the Central Valley Project in California—500,000 acres more of land in production. Saving grace is the 160-acre unit limitation on "family farming."

As We Go To Press

Exhibiting the lack of finesse that has marked many other incidents in his public career, James R. Hoffa has given Congress the privilege of "buying" his cooperation. In even blunter language, Senator John F. Kennedy made it clear that a Hoffa promise is shoddy merchandise at best. and that deals are out. The boss of the teamsters union made his play from the witness stand where he continues to shout defiance. "When the final chapter is closed in this committee we will then take up these charges, one by one," said Hoffa by way of serving notice that until then he will not live up to his promise to the Senate and to Federal Court that he will clean up the racketeering in high places in the Teamsters Union.

Tightening of the net around Hoffa and his associates is discernible to any who sit through the new set of hearings. The barrel-chested union boss seems aware of it too. There is as much noise, bluster, and belligerence as ever. But now, much of it seems to be aimed over the heads of Mc Clellan Committee members and beamed to the union halls. At first, Hoffa defended the convicted and imprisoned racketeers on the teamsters' organization payroll as lads who had made mistakes, had reformed and, in any event, would remain on the payroll just as long as he wanted it that way. Then there was a period when the "reformation" was to be forgotten and those with criminal records or inclination were to go. That was when the majesty of the Federal Court asserted itself. Hoffa has passed over situations which called for firings, nothing happened, so he's taking a calculated risk.

Long files of teamsters union "leaders" have passed before the Senate committee. The individuals have been accused by Counsel Robert Kennedy of high crimes and misdemeanors. Almost without exception, they have taken the Fifth Amendment when asked if they are guilty as charged. The amendment merely forecloses a forced confession or an admission "against interest"; it doesn't junk the evidence on which the questions are constructed, nor does it weaken such evidence. The pipeline from the committee chamber to the criminal division of the Department of Justice is kept busy with transmissions, many of which will find their way to the criminal courts.

Blow to Hoffa is the registration from the court-appointed committee of monitors, of Godfrey P. Schmidt. Oddly, Schmidt's resignation had been demanded by the teamster boss: it was shown that the monitor had represented trucking companies and therefore had a "conflict of interest." Hoffa dismisses as a right "under our great private enterprise system" the half-interest in a trucking concern which stands in the name of Mrs. Hoffa. In her maiden name, incidentally. By dropping his post on the three-member board of monitors, Schmidt says he now is free to devote more attention to prosecuting charges that Hoffa misused union funds and otherwise indulged malpractice. The lawyer continues as counsel for the 12 dissident truck union members who represent card holders who want the union fumigated and Hoffa deposed. This group has been successful in having monitors named and making the union president answerable to them. The move brought on the order to clean up. And if that isn't done, a contempt citation. A new monitor will be picked. Under terms of the court order he will be selected by the complaining teamsters – hardly a victory for Hoffa.

For the first time since the current session began, the democratic controlled Congress is under heavy fire. Majority Leader Lyndon Johnson isn't doing as effective a job in putting down the revolt as he did when Senators Proxmire and Mc Namara tee-ed off on him (Johnson could then, or today, call a party caucus and obtain an overwhelming vote of confidence). The line of attack is different today; now the attacks are coming from outside the party. In the November 1958 election, the Democratic National Committee had the assistance of potent outside

groups. One of these was the Political Action Committee (AFL-CIO) which raises political campaign money and armies of election volunteers for the demmies. PAC is unhappy over democratic sponsorship and backing of legislation to frown on union abuses, even though a powder puff is used where a pneumatic pavement-cracker is indicated.

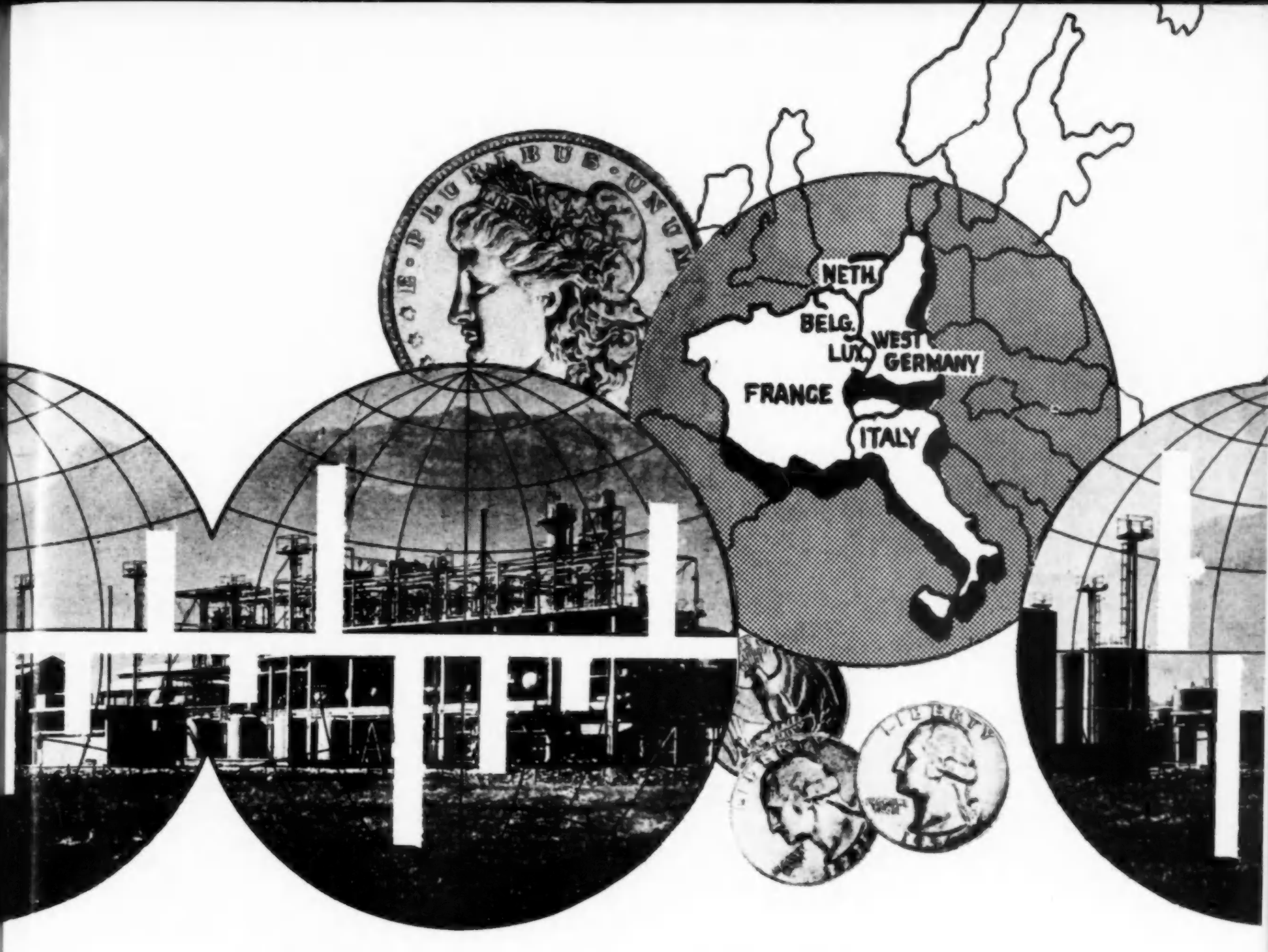
Congress has not supplied the new national direction and the sense of verve which were openly or tacitly promised last November, says the Committee for an Effective Congress. The session is in its seventh month but it has offered nothing in the way of an alternative to the policies of the Eisenhower Administration. Many who supported democratic candidates looked for action to take the national leadership from Ike. It hasn't happened. One of the reasons that will be cited is the fact that the democratic sweep, encompassing as it was, didn't give the dems sufficient strength to overcome Presidential vetoes. So the majority has to be content with actions which will satisfy Mr. Eisenhower in the first instance, or will hold the backing of more than two-thirds of the Congress membership.

Intraparty strife has plagued the democrats from the beginning of the session. The Democratic National Committee chairman, Paul A. Butler, has been upsetting the applecart on civil rights legislation in general and classroom racial integration in particular. On alternating days he has been reading southern conservatives out of the party and "explaining them back in." Southern democrats hold almost every major committee chairmanship and it's impolite to irritate them. One of those most nettled is Johnson. He hails from Texas, would like to be a Presidential nominee in 1960 and doesn't want scars on his leadership record to be spotlighted at the convention.

Alternatives which face the democrats are these: 1. Enact a program which is believed to reflect the wishes of the majorities which voted them into office: a bold, sweeping blanket of "liberal" legislation which puts action above budget balance, and juggles the financing so the impact is delayed – until after the next election at least; 2. Acceptance of the White House demands for balanced budget, new revenues, and postponement of programs for public housing, slum clearance, area rejuvenation, new schools, and other eye-appeal performances – and blame it on the republicans when the campaign is being waged. The first of these alternatives, backers point out, would be fulfillment of campaign pledges without burdening the taxpayers (the reasoning here is that the demmies would make the gestures and Ike would save the taxpayer by successful veto.)

Neither party is particularly happy over the purely partisan political outlook. Neither has made any great shakes of a record in the present session. The democrats have pared down many of their original spending plans and examination of the party-line aspect of the roll calls indicates that GOP votes weren't needed to insure the economies–sufficient democratic votes were cast to control the result. On the other hand it was threat of successful Presidential veto that forced the decisions to save. Naturally this rebounds to the credit of Mr. Eisenhower who seems to be giving the republican party more personal leadership in his final years in office than was combined in the first six years. Polls show Ike's popularity with the general public to be on the increase while the GOP's rating still goes down. The President hasn't been able to perform a transference of his personal magnetism with the voters, to the republican party – in election years, or at other times.

Food Store Chains are statistically examined in great detail in an interim report issued by the Federal Trade Commission and the key to the plight of the independent meat products packing companies is suggested by the data. Shipments from owner processing facilities by the "voluntaries" (wholesalers sponsoring voluntary groups of retail grocers), and by the cooperatives, has become negligible. They aggregated $29 million in 1957, in contrast with $1.1 billion for the chains. Sales by food store chains of 11 or more outlets increased by 118 per cent from 1948 to 1958, compared with a gain of 72 per cent for all retail food stores. The developing trend toward the chain store is reflected in the fact that three-quarters of the acquisitions of retail stores by food chains have taken place in the last four years.



A Sharp Second Look at EUROPEAN COMMON MARKET

—What it means to the United States in terms of export of branch plants—affect on import-export trade—and gold movements abroad.

By ERIK I. MORTON

- **Increasing number of American companies abroad to prevent loss of markets**
- **Our exports to Europe—raw materials . . . what competition from Africa—Asia—South America?**
- **Money in search of a higher return**

THE most aggressive tactical riposte in the duel between Communist imperialism and the Free World in recent years was the creation of the European Common Market on March 25, 1957. At that time, Belgium, France, Italy, Luxembourg, the Netherlands and West Germany pledged to form a European Economic Community, under the Treaty of Rome.

Basically, this idea is not new. Europeans have yearned for some form of unity since the fall of the Roman Empire. However, other than the Council of Europe set up after Napoleon's defeat, force was the primary weapon used in dealing with each other. This naturally failed to produce unity, and the scars never healed. And now, once more, European nations are again seeking unity—this time using trade as the unguent for producing the goodwill needed under today's conditions to cement better economic and political relations.

The Common Market was designed to promote economic collaboration within the various countries, in the hope that the community of interests would lead to greater solidarity and bring into being a strong European bloc. The broad plan envisaged the gradual economic coalescence of the economies of the six member nations over a 12-15 year period, beginning January 1, 1959. Tariffs, quotas and other barriers to trade among the Six will be gradually eliminated during the period of transition.

Because the individual countries are bound to

think in terms of their own individual needs and attitudes toward cartels and other practices, the road toward European economic integration will not be smooth, and no one expects it to be. Yet, in spite of the various obstacles, there is still a good possibility that the Six will be able to speed up their integration program. In fact, progress to date has been amazing. But even European statesmen are shying away from predictions since political blowups in the Middle East, Algeria, as well as economic upheavals in member countries could halt progress. Much will depend on the development in the economies. Here is a brief analysis of each of the Euromarket countries:

Belgium: This nation is one of the most densely populated countries in the world, with 767 inhabitants per square mile. The economy is predominantly industrial and relies to a high degree on foreign trade. Belgium is poor in natural resources, except coal, and thus, its industry mainly processes imported raw materials for re-export in semi-finished or finished form. Iron and steel, nonferrous m e t a l s, fabricated metal products and textiles form the backbone of the economy. Livestock production is its most important sector of agriculture. The overall economy will pick up somewhat from a recession that began there at the end of 1957. Increased g o v e r n m e n t expenditures and state-financed projects will be continued so as to offset the expected low level of private investment this year. The government also is embarking on an export promotion program which should show results soon, especially in the Common Market.

Book Value of United States Direct Investments in Western Europe (millions of dollars)

COUNTRY	Total Value Dec. 31, 1957	Increase in Value 1956 to 1957	Increase 1956 to 1957 by Categories: Mfg.	Increase 1956 to 1957 by Categories: Petroleum
COMMON MARKET				
Belgium	$ 156	$ 6	$ 1	$ 5
France	457	30	9	11
Germany	496	67	29	40
Netherlands	213	27	1	17
Italy	233	26	16	0
TOTAL	1,555	156	56	73
REST OF OEEC				
Denmark	45	0	0	0
Norway	62	1	1	—2
Sweden	118	3	3	—1
Switzerland	55	7	3	1
United Kingdom	1,889	287	149	113
Other	194	17	1	7
TOTAL	2,373	315	157	118
SPAIN	65	3	2	—1
TOTAL WESTERN EUROPE	3,993	474	215	190

France: De Gaulle's strenuous campaign to place the franc on equal strength with the Deutschmark and pound sterling already is achieving spectacular results. Savings in France are climbing rapidly and will increasingly be placed in such key industries as electronics, aluminum, chemicals, and steel. Strong protectionist sentiment in France is on the wane, and many French companies are vigorously seeking new export business. However, even the most optimistic Frenchmen concede, French exports will lag behind those of Britain and Germany for quite some time. On the other hand, the population boom in France will turn that country into one of the most youthful and dynamic nations in Europe. French gross national production should surpass that of Britain and West Germany by the end of the next decade, if the trend continues.

Italy: The main problem of Italian industry in spurring production is to improve the overall training and specialization of manpower. Government authorities and Italian companies have now embarked on a crash program to achieve this vital goal. Up to now, this job has been shockingly neglected. Furthermore, there still remains the urgent need to modernize agriculture, especialy in the south. Enormous strides are being made in production of petrochemicals in Italy. High foreign investment now gives Italy its most favorable balance of payments in history. Although gross national production may rise 4% this year, indications are that growth of the Italian economy in 1959 will be at a rate somewhat less than the vigorous postwar recovery years, but a little better than the 1958 pace. The prospects are that Italo-German economic cooperation will be complementary; German capital and know-how on one hand and Italy's manpower and geographical position on the other.

Luxembourg: This is the smallest member of Euromarket in size. Luxembourg has been a member of the Belgo-Luxembourg combine since 1921 and of Benelux since 1948. Iron and steel production is the barometer of Luxembourg's economy inasmuch as 98% of its output is exported. Tobacco, food, chemicals, metal manufacturing and beverages are the other industries. Labor productivity in Luxembourg is reported to be the highest in Europe. Communications and transportation networks are in excellent condition. Modernization of plants also is underway. Outlook is that there will be full employment in Luxembourg this year and a better sales record than 1958's total.

The Netherlands: The long-term prospect is very favorable, but Holland's economy is entirely dependent on stable world economic conditions. The fast-rising population will provide continued need to further industrialization, productivity and an increase in exports. The Netherlands will again have a balance of payments surplus this year. The most important export products are Indonesian tin metal, machinery and parts (non-electrical), radioelectric tubes, receivers and parts, electric machinery, ocean freighters and tankers, small craft, transport equipment, clothing, meat, ham, cheese, condensed and evaporated milk and flower bulbs. Labor conflicts in Holland are minimized by close cooperation between labor, business and the Government.

West Germany: At the present moment, Germany is far ahead of France and Italy in industrial output, but produces less than half of Euromarket as a whole, whose aggregate industrial output is about $70.6 billion. Nevertheless, Germany soon will surpass the United Kingdom's export volume (second only to the U. S.). Since 1950, Germany's sales abroad jumped from $2 billion to $8.8 billion in 1958. Germany already has 9% of the world's export markets, with the U. S. the prime sales target. Strenuous efforts to build up trade in Latin

America, the Middle East and Asia are succeeding. Although 27% of German trade now is conducted with Euromarket countries, this total will be increased in the years ahead. Moreover, imports were sharply held in check which resulted in sizable trade balances—$1.4 billion during 1958 alone.

At the same time, Germany is gradually becoming a leading world banker. Direct private investments in foreign lands have risen to $550 million in the past seven years. In fact, Germany is the only capital exporting country to increase its holding abroad during the 1958 recession. The only weak spot is labor pressure within Germany for wage hikes. But labor will do nothing drastic to impede German economic growth.

Impact of Common Market on U. S. A.

Formation of the Common Market will not involve a large-scale loss of European markets for the U. S. At present, the Six, as a whole, purchase an average $3 billion from this country, about 15% of total American exports. With the exception of energy and agricultural products, roughly 31% of U. S. shipments to Euromarket members consists of raw materials such as ores, textile fibers, vegetable oils and basic chemicals—all of which will be subject either to very low duties or none at all.

Imports From U. S. to be Largely Raw Materials?

Demand is likely to remain high for such U. S. exports as coal, steel mill products, iron and steel scrap, non-ferrous metals, semimanufactures, and raw cotton. *Stepping up of EEC industrialization, particularly if accompanied by a substantial inflow of American investment capital,* will probably result in increased demand for machine tools, machinery of all sorts, and road-building equipment during the early stages of the transition period.

But, if this country continues on the path of creeping inflation plus continuous demand for wage increases by labor here, in spite of severe anti-inflationary measures now being adopted by the Six, then U. S. exports could decrease rapidly.

The Common Market will pose as a serious threat to the U. S. unless we are able to keep our wage and production cost in check.

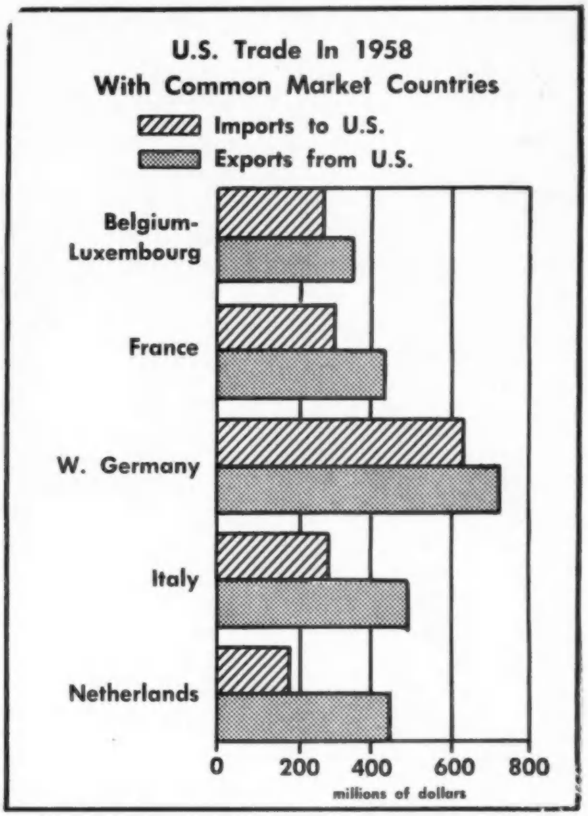
U. S. Export Drop 20%

This problem is extremely serious because American imports have remained constant while exports have dropped from the mid-1957 peak of $21 billion annually to the recent level of $17 billion.

This has been accompanied by a loss of some $2.3 billion in the U. S. gold holdings and an increase in short-term liabilities held by foreign interests. While this situation still is not alarming, *any continuation of this trend for a considerable period will have a drastic effect on the U. S. economy.*

American Plants Abroad

The best way for American firms to hold markets in Europe is through establishing branch plants in Euromarket and stepping up licensing arrangements with local companies in the community.



Many U. S. concerns already have made intensive studies of their probable future position in Euromarket. Some 250 American companies now have plants in one or more of the Common Market countries and this is but a beginning. Other investment will take the form of joint undertakings with established European plants. Know-how will be pooled and patents and production techniques will be made available under licensing arrangements.

U. S. direct investments in Euromarket can be now split up as follows: *Germany, $430 million; France, $432 million; Italy, $210 million, Netherlands, $187 million; and Belgium, $158 million.*

American business will have the opportunity to profit from its knowledge of advertising and in low margin, high volume retailing. This experience will provide U. S. firms in Europe with opportunity to establish themselves securely in a larger market during the forthcoming period of change and experiment.

Lack of Sufficient Information Calls for Greatest Care in Investing Abroad

Meanwhile, American security analysts report difficulty in getting the source information on European company affairs that they are accustomed to receiving from U. S. firms. Europeans concerns tend to conceal their real earnings in special reserve funds. But analysts here are very favorably impressed with the new French law which requires that all companies listed *(Please turn to page 526)*

Answer to Subscribers' Inquiries Regarding...

Speculative Position of the SUGAR STOCKS Under Drastic Changes

By ALLEN C. POOLE

- ► **Impact on sugar producers should international bickering flare up**
- ► **Castro's Land Reform and expropriation campaign in Cuba**
- ► **Prospects for revised sugar quotas for the various countries**
- ► **Position of cane, beet sugar growers, and refiners—the individual companies according to degree of speculation**

WITH the international tensions surrounding the Berlin situation as discussed at the Geneva Conference of Foreign Ministers, and the uncertainties created by Castro's land reform program in Cuba, almost anything can happen to sugar stocks over the next few months.

In simple terms an international crisis should create strength in the world price of sugar which in turn will help the market action of the sugar producing companies whose earnings are largely dependent on the price of world sugar. Illustrative of this point is the fact that world sugar prices hit high points during the Korean War and again during the Suez crisis. In nearly all cases common stocks of sugar producing companies reacted accordingly. Even last July when American troops were moved into Lebanon, these stocks responded to a modest degree, but of course in this case the crisis was shortlived.

Today it is becoming increasingly apparent that an impasse on Berlin has been reached between the Western Powers and the USSR. The contrast between the modern city of West Berlin and the acres of ruins in East Berlin has proven a severe propaganda blow for the Communists who are therefore determined to get the Allies out of West Berlin. On the other side of the picture, withdrawal would give a victory of incalculable importance to the Russians, and be a damaging blow to American prestige in Europe, as well as neutrals and those other countries who look to us for leadership in the various areas of the world. The prospects that the Russians would

Statistical Summary of Sugar Companies

	Net Sales Fiscal 1957	Net Sales Fiscal 1958	Net Profit Margin Fiscal 1957	Net Profit Margin Fiscal 1958	Earned Per Share Fiscal 1957	Earned Per Share Fiscal 1958	Dividend Per Share 1957	Dividend Per Share 1958	Price Range 1958-1959	Recent Price	Div. Yield
Cuban-Dominican Producers											
CUBAN AMER. SUGAR W.C. (mil.) '57–$14.1; '58–$13.6	$56.8[1]	$58.2[1]	5.3%	4.4%	$3.66[1]	$3.17[1]	$1.75	$1.90	37½-18¾	20	9.5%
FRANCISCO SUGAR W.C. (mil.) '57–$1;6; '58–$1.2	15.0[2]	16.1[2]	7.1	6.2	2.87[2]	2.86[2]	.60	.50	14¼- 6¾	7	7.1
MANATI SUGAR W.C. (mil.) '57–$2.1; '58–$1.9	13.7[3]	12.6[3]	5.7	5.1	1.76[3]	1.47[2]	.45	.20	8⅜- 4½	5	4.0
VERTIENTES CAMAGUEY W.C. (mil.) '57–$10.2; '58–$8.6	24.7[1]	23.0[1]	14.3	8.5	2.45[1]	1.37[1]	2.43	1.27	14⅜- 6⅛	6¼	20.3
WEST INDIES SUGAR W.C. (mil.) '57–$49.7; '58–$20.5	33.4[1]	20.9[1]	17.3	.6	5.76[1]	.23[1]	1.00	1.00[7]	68½-37½	38	2.6
Puerto Rican Producers											
CENTRAL AGUIRRE SUGAR W.C. (mil.) '57–$8.8; '58–$7.8	16.8[4]	16.0[4]	10.8	6.5	2.45[4]	1.40[4]	1.40	1.40	23¼-17½	22	6.3
FAJARDO EAST. SUGAR W.C. (mil.) '57–$6.2; '57–$4.6	26.3[1]	22.2[1]	.5	d4.8	.07[1]	d3.18[1]	—	[10]	19⅞-13½	16	—
SOUTH P. R. SUGAR W.C. (mil.) '57–$7.0; '58–$8.6	43.0[1]	25.8[1]	13.6	d .4	5.36[1]	d .51[1]	1.90[8]	1.00[9]	34¾-21¾	22	4.5
Beet Sugar Refiners											
AMER. CRYSTAL SUGAR W.C. (mil.) '57–$18.6; '58–$19.6	59.8[5]	56.6[5]	2.5	3.2	3.45[5]	4.33[5]	1.40	1.60	44½-29⅛	40	4.0
GREAT WESTERN SUGAR W.C. (mil.) '57–$38.6; '58–$40.6	93.5[6]	107.3[6]	6.4	6.2	2.82[6]	3.13[6]	1.50	1.70[9]	31⅞-20¾	26	6.5
HOLLY SUGAR W.C. (mil.) '57–$12.7; '58–$13.8	67.2[5]	67.8[5]	[illegible].2	2.8	2.07[5]	2.65[5]	1.20	1.20	25¾-17⅛	23	5.2
Leading Cane Refiners											
AMER. SUGAR REFINING W.C. (mil.) '57–$30.7; '58–$35.0	330.8	350.2	3.0	3.3	3.80	4.71	1.62	2.20[9]	43⅝-25¾	30	7.3
NATIONAL SUGAR REFIN. W.C. (mil.) '57–$14.2; '58–$13.8	187.6	194.3	1.1	1.2	3.30	3.50	2.50	2.25	40¾-30⅝	40	5.6

W.C.—Working capital.
d—Deficit.
2/9/1959; Amer. Stock Exchange removed com. stock of Cuban Atlantic Sugar from listing as company has been liquidated.
Fiscal years ending: [1]—Sept. 30. [2]—Oct. 31. [3]—June 30. [4]—July 31.
[5]—3/31/58 and 3/31/59. [6]—2/28/58 and 2/28/59.
[7]—Plus partial liquidation.
[8]—Plus stock.
[9]—Indicated 1959 rate.
[10]—7/2s of a share stock dividend.

resort to war over Berlin seem very slim, but they might resort to the blockade tactics of 1948.

Whether such a turn of events would have an affect on world sugar prices remains to be seen, although the possibility exists, should speculative pressures be applied—when one considers that these prices are now at their lowest levels in many years.

The Cuban Situation

Most vital, however, at the present time is the political situation in Cuba and the possible effects it will have on the sugar producers there and on the actual production of sugar. Cuba as a principal world supplier of sugar has been in the spotlight since last fall when it appeared that production might be seriously impaired by the revolution then taking place there. World sugar prices rose sympathetically and then overnight, almost without any advance indications, Fidel Castro suddenly took over complete control of the country. With normal sugar production assured, world prices collapsed to their lowest levels since the early 1940's.

At the same time common stocks of sugar producers dropped sharply while those of the Cuban companies advanced. The honeymoon was over shortly, however, when Castro announced his land reform program. Under this program foreign individuals and corporations are not allowed to own more than 1,000 acres of Cuban soil.

Virtually all American sugar producing companies located in Cuba are affected by this program and to avoid expropriation of their properties will be required to sell their land in the near future at prices based on recent tax assessments normally far below the true value of the land. Compensation will be made in 4% 30-year Cuban government bonds, obviously worth considerably less than their par value when one considers that U. S. Government 30-year bonds are available at yields to maturity of over 4% and Canadian bonds are available at yields over 5%. Furthermore recent instability in the

Cuban currency further lessens the value of these bonds.

The Sugar Companies

What effect this action will have on American sugar producers in Cuba requires some study. *Obviously asset values of these companies will suffer considerably.* Furthermore it is questionable whether adequate amounts of this land will be made available to these companies even on a rental basis, as much of it is expected to be parceled off to the farmers as the government's tenants. *In effect the sugar industry is likely to receive a severe setback in Cuba and those companies owning large blocks of land in Cuba will suffer seriously.*

At their current depressed market prices the Cuban sugar stocks in many cases are selling at their lowest levels in some time. Undoubtedly there are some spectaculators who will risk venture capital to purchase these stocks at these levels on the possibility that Castro will knuckle down under pressure from either this country or to factions in Cuba opposing him and who are demanding that he modify his land reform program. Even if this were to take place, however, it should be remembered that operating costs have been abnormally high for these companies because of the difficulties earlier this year, while revenues have been reduced with World sugar prices at their lowest levels in over 15 years. *Consequently, barring an international crisis that might cause sugar prices to rise, earnings this year should not be impressive and this group does not appear to offer any outstanding values.*

Puerto Rican Sugar Producers

Like all other sugar producers, those in Puerto Rico will suffer as far as earnings are concerned with the current low price of World sugar. Looking ahead, however, one should study these companies more carefully because they may benefit as a result of the difficulties in Cuba. In 1958 their earnings suffered greatly, due first to a poor sugar crop and secondly because of some labor difficulties. Both of these obstacles have been overcome and in 1960 it appears that Puerto Rican sugar producers may be in a relatively favorable position.

In the first place further difficulties in Cuba could result in curtailed sugar production which in turn might result in higher world sugar prices. Secondly, continuation of Castro's present land policies in Cuba may cause him to lose favor in the United States. An obvious reprisal would be the reduction of sugar quotas for Cuba and *increased quotas for Puerto Rico to the extent that it was felt Puerto Rican production could meet these quotas* Each year under the Sugar Act of 1948 the U. S. Government through the Secretary of Agriculture assigns import quotas to Cuba, Hawaii, the Philippines, Puerto Rico and the Virgin Islands, as well as regulating its own domestic production. Reduced quotas for Cuba might not only benefit the Puerto Rican sugar companies but also Hawaiian producers, the principal one being Oahu Sugar Co. Ltd.

Outlook for World Sugar Prices

Under the International Sugar agreement which expired on December 31, 1958, but which was superceded by a new five year agreement with the same basic objectives, efforts are made to maintain equitable and stable prices in sugar. When World sugar prices fell below $3.15 per hundred pounds, mechanisms were put into effect to arrest the price decline. However, with the great oversupply that currently exists these steps have ben unsuccessful to date with sugar prices almost 40 cents lower. *Unless there is an international crisis or unless Cuban sugar production is curbed significantly, it seems unlikely that world sugar prices will have a worthwhile rally in the near future.*

However, psychological forces set off either by the realization of the difficulties that exist in Cuba, or by the fears that the Berlin crisis will develop into a physical conflict could rapidly reverse the price picture. Until that time, however, the outlook for sugar producers is far from promising, and stocks in these companies *should be purchased only on a highly speculative basis because: (1) They appear to be overdepressed; and (2) World sugar prices may now have reached their low points.*

Commitments should be limited to Puerto Rican and Hawaiian sugar producers except in the case of the highly venturesome spectaculator who believes that eventual pressures within and outside Cuba will force Castro to modify his land program, and to effect changes that will be more beneficial to the Cuban companies.

Beet Sugar Processors

The increased production of sugar and lower world prices indicate that beet sugar processors are likely to receive substantially lower quotas in 1960. *However, this situation could be radically changed if Cuban sugar production is curtailed.* Even with lower earnings prevailing dividend rates appear to be protected and it seems that this group of stocks has some appeal for investors interested in high yield and not particularly concerned with capital gains.

Cane Refiners

These companies are the principal beneficiaries of lower world sugar prices and readily available supplies—and their profits should be affected accordingly. Higher profit margins are to be expected in 1959 despite some reductions in refined sugar prices. Of course any increase in the price of world sugar would have an adverse effect on profit margins. Nevertheless, based on 1958 earnings and dividend payments, while the common stocks of two leading companies in this field, American Sugar Refining and National Sugar Refining offer a measure of appeal both in respect to yield and price times earnings ratios, it should be pointed out that American Sugar Refining Company is also a fairly important Cuban producer of raw sugar, which adds an element of considerable risk to its operations in the year ahead.

Sugar Stocks As Investments

To date this article has been devoted to a general background study of the history and oulook for the sugar industry in all its *(Please turn to page 522)*

1959 Mid-Year Forecast of . . .

DEPARTMENT STORES and MAIL ORDER HOUSES

By WILLIAM BARTLETT HAYES

- **The affluent American consumer—he's loaded and he's spending**
- **But what of company prolts and dividends?**
- **How much can slim days of the lean years be improved?**
- **Companies faring best—where expansion costs will be felt—where future growth exists . . . companies in the most dynamic position—in a good position—both earnings and dividend-wise looking to 1960**

NOT for many years have the department store and mail order divisions of retail trade been so optimistic about their prospects as they are today. These two lines have been conspicuous beneficiaries of the recovery in general business that has been going on now for more than a year. The expansion of retail sales that began about the middle of 1958 and gathered momentum in the late Fall culminated in a Christmas trade that was the highest ever and lifted total volume for 1958 slightly above the previous year.

What most surprised observers and even a few retailers, however, was the way the trade fared after Christmas. It is true that there was the usual letdown in January and February so far as volume was concerned. But inventories of retailers had been reduced last year to unusually low levels because of the disappointing results of the early months of 1958, and were really depleted by the unexpectedly good Christmas volume. As a result, department stores and mail order houses had to conduct fewer markdown sales and gross margins were well maintained.

Consumers Buying Confidently

Sales were stimulated in late February and most of March by the fact that Easter fell a week earlier this year than in 1958. Moreover, continued revival in business activity, strength in the stock market,

increases in employment, lengthening of the work week, and slightly higher wages spread a spirit of confidence among consumers. Even after Easter, retail sales have continued at levels well above a year ago. Department store volume for the year to date shows a gain of 9 or 10 percent over 1958.

There is little reason to expect any substantial change in this satisfactory situation during the balance of the year. Assuming no serious labor troubles, since both sides in the steel wage dispute seem eager to avoid a strike, the momentum of the present upswing makes it probable that business will continue active, gains will be registered by employment, disposable personal incomes will increase, and consumers will make more use of instalment credit and other credit to satisfy wants — all of which will be reflected in high retail volume, well-maintained retail margins, and gratifying advances in earnings of retail enterprises such as department stores and mail order houses. *Even though comparisons in the final half of the year will be made with a much more favorable period in 1958 than the first six months, continued good gains seem likely in both volume and profits.*

Turning The Corner

Fully as important to department stores as the current good business is the possibility that they may have turned the corner, and be on the way to regaining a part of their former prestige and profits. For a dozen years the big retailers have been adjusting painfully to a changing retail climate to which they were not accustomed.

Department stores have had to contend, *first of all,* with the fact that, after replenishing wartime shortages, a large proportion of their customers began to move away from them, into the mushrooming suburbs. *Second,* they had to find ways of recruiting employees in a period of full employment, and methods of controlling labor costs in spite of rising minimum wages and increasing demands of unions. *Third,* they had to suffer cut price competition on volume items from discount houses with limited stocks and services, and the convenience competition of roadside stores and the supermarkets who have been stocking non-foods of many kinds.

Department stores met these challenges with intelligence and energy, but it has taken time for their countermoves to become effective. As soon as it became evident where the new suburban shopping centers were, department stores began following their customers by establishing suburban branches which are now providing much of their sales gains. As soon as ways of mechanizing the handling of stocks and the keeping of records were devised, department stores have adopted them as a way of distributing more goods with fewer employees. *For example, last December R. H. Macy & Co., ordered a million dollar system of electronic and other machines to automate* the keeping of records of its New York division. *As "fair trade" laws were repealed or nullified by court decisions, some department stores reduced their prices to compete with discount houses;* others eliminated some appliances on which even wide gross margins proved inadequate because of low volume. They have learned how to fight competition.

The results have been that profits of department stores have been climbing slowly but fairly steadily since 1951, and for a few organizations have now reached the level of ten years ago. *Moreover, virtually all department stores and mail order houses look forward to higher profits for 1959.*

Stocks Reflect Improvement

The stocks of department store chains and mail order houses have reflected, in the last two years, growing realization of this improvement in fundamental position. During the period of recession and uncertainty in the closing months of 1957 and the first half of 1958, both groups performed much better than the general market. In part, of course, this was because of their defensive characteristics.

In the period of recovery, however, roughly the last twelve months, department store stocks have also done better than the general market, and mail order stocks have done much better. The latter have had the advantages of improvement in conditions in the farming districts, the stimulus of increasing application of credit selling, and larger profits from insurance and financing subsidiaries.

The earnings results of most department stores and mail order houses in the last year have been so good, relatively, that the advance in their stocks in the last eighteen months finds most of the issues in this group selling at interesting price ratios. Only such leaders in the field as Federated Department Stores, Sears Roebuck, Associated Dry Goods, and J. C. Penney Company sell at price-earnings ratios and yields that make one wonder whether they can really be considered attractive investments despite their admittedly excellent records and prospects.

Some investors will prefer to place their funds in this relatively stable industry which offers the possibility of modest gains over the years. To assist in selecting the most satisfactory combination of management, yield, and the like, the remainder of this article is devoted to comments on the positions and prospects of the individual companies.

Allied Stores completed last August what its management calls "a rather drastic expansion program" begun in 1955. It is now emphasizing cost controls and expects to reverse the downward trend of earnings in effect since 1954. It is a question, however, whether the gain this year will be sufficient to warrant a further increase in the $3 dividend.

Arnold, Constable Corp., whose earnings have been declining since 1954, reported last year the lowest profits per share since 1939. This trend raises some question as to the permanency of the $1.25 dividend. However, finances are still strong enough to maintain payments for some time. Management owns about 88% of the stock.

Associated Dry Goods' volume and profits hit new highs in the fiscal year ended February 1, 1959, this being the seventh successive year of earnings gains. Net income in the quarter ended April 30 was the highest for any similar quarter in the Company's history, leading to expectations of a substantial further increase in the current fiscal year. The Company is now acquiring the assets of the Erie Dry Goods Company and has plans for opening additional stores. Capital expenditures for this program are expected to total about $8.5 million, and may delay an increase in the dividend.

Best & Co. continues to display stability rather than

15 Leading Department Stores

	1st Quarter: Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Full Year: Earned Per Share 1957	Earned Per Share 1958	Indic. Div. 1959*	Price Range 1958-59	Recent Price Div.	Yield %	Rating
ALLIED STORES W.C. (mil.) '57–$144.5; '58–$138.9	$129.6	$137.7	d.1	4.5	$d.14	$.15	$4.33	$4.18	$3.00	61¾-35¾	60	5.0	B-1
ARNOLD CONSTABLE W.C. (mil.) '57–$5.4; '58–$5.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.14	.99	1.25	23 -16½	21	5.9	B-3
ASSOCIATED DRY GOODS W.C. (mil.) '57–$62.5; '58–$71.2	55.4	63.3	1.4	2.0	.37	.64	3.92	4.15	2.20	53¾-29	55	4.0	A-1
BEST & CO. W.C. (mil.) '57–$10.6; '58–$11.9	10.1	10.6	5.0	4.7	.85	.83	2.96	2.92	2.00	41⅞-28½	38	5.2	B-2
CITY STORES W.C. (mil.) '57–$66.2; '58–$65.6	258.1[5]	272.8[5]	1.1	.8	1.19[5]	.94[5]	1.31	.90	1.00	18¾-15⅛	17	5.8	C-3
FEDERATED DEP'T STORES W.C. (mil.) '57–$126.1; '58–$135.1	138.9[1]	146.2[1]	2.9	3.5	.53[1]	.67[1]	3.25	3.64	2.00	64½-29¾	60	3.3	A-1
GIMBEL BROS. W.C. (mil.) '57–$82.8; '58–$85.6	83.4	89.1	.7	1.4	.26	.60	3.69	3.85	1.80	47⅛-21⅝	45	4.0	B-1
INTERSTATE DEPT. STORES W.C. (mil.) '57–$14.4; '58–$13.6	13.0	13.1	d3.7	d2.7	d1.59	d1.17	3.31	2.06	1.20[3]	36 -22	31	3.8	C-2
MACY (R. H.) & CO. W.C. (mil.) '57–$71.4; '58–$67.8	358.1[2]	368.1[2]	1.8	1.8	3.11[2]	3.47[2]	3.44	3.20	2.00	42¼-28	41	4.8	B-1
MARSHALL FIELD & CO. W.C. (mil.) '57–$65.8; '58–$61.9	45.3	48.2	1.8	1.9	.34	.42	3.56	3.51	2.25	46½-29⅞	45	5.0	B-2
MAY DEPT. STORES W.C. (mil.) '57–$120.8; '58–$161.0	110.4	140.5	1.5	1.7	.23	.32	3.19	2.90	2.20	53⅝-46	48	4.5	A-1
MERCANTILE STORES W.C. (mil.) '57–$27.9; '58–$26.0	30.6	32.8	.7	1.0	.15	.23	2.73	2.88	1.65	37 -19¼	35	4.7	B-2
MONTGOMERY WARD & CO. W.C. (mil.) '57–$587.6; '58–$566.5	221.9	260.2	1.3	1.8	.19	.34	2.21	2.08	2.25	49⅝-28	48	2.1	B-1
PENNEY (J. C.) CO. W.C. (mil.) '57–$200.8; '58–$206.7	357.6	384.3	N.A.	N.A.	N.A.	N.A.	6.00	5.69	4.25	117 -82½	111	3.8	A-1
SEARS ROEBUCK & CO. W.C. (mil.) '57-$777.1; '58-$1,136.1	777.2	875.5	2.7	3.6	.29	.36	2.15	2.21	1.20	47½-25	48	2.5	A-1

N.A.—Not available.
*—Based on latest dividend rate.
d—Deficit.
W.C.—Working Capital.

1—13 weeks ended May 2.
2—39 weeks ended May 2.
3—Plus stock.
4—13 weeks ended April 30.
5—52 weeks ended May 2.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unatractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

growth of earnings, despite some expansion of facilities. It plans to open a new store in Boston this summer. Stock is of interest chiefly for income, and the company's strong finances would permit an increase in the $2.00 a share annual dividend paid since 1947.

City Stores Co.: Undaunted by five years of declining profits, culminating in fiscal 1958 in the lowest per share net income since 1941, this Company has an ambitious program for new stores not to mention modernizing some existing ones.

Dividend of $1.40 a share, paid for the previous seven years, was cut to 50¢ a share last year. Management says results improved in the first quarter of the current fiscal year, in reflection of which 50¢ a share has been paid thus far in 1959. Book value of the stock as of January 31, 1959, stood at $24.46 a share. Bankers Securities Company owns about 70% of the common stock.

Federated Department Stores is the largest department store chain and has the best postwar earnings record of any company in this field. Sales increased in the 12 months ended January 31, 1959, for the twentieth consecutive year. Earnings also advanced, for the seventh successive year.

Last year Federated opened a new suburban store in Milwaukee, added to the facilities of the downtown Columbus store, and built a new service building in Dallas. Since the end of the fiscal year the Company has opened a new branch in Dallas and has announced plans for a downtown parking garage in Brooklyn, new suburban stores in Bergen County, N. J., and Milwaukee, additional space in Hempstead, N. Y., and a new service building in Cincinnati.

Earnings seem headed for a new high this year

and the dividend rate, increased twice in the last two years, could be advanced again.

Gimbel Brothers, whose earnings have staged since 1951 one of the most substantial advances in the trade, took another step forward last year. Much of the gain was credited to new branches opened since 1953. Suburban stores now provide more than 20% of total volume and expansion continues.

First quarter earnings were the largest for that period since 1946, and full year profits have a good chance of topping any since 1946. Such an achievement could produce an increase in the dividend in spite of finances that leave something to be desired.

Interstate Department Stores suffered last year from depression in the automobile industry in many of the areas in which it has stores. Earnings for the year were the smallest since 1941. In the first quarter of the current fiscal year the deficit was smaller than a year earlier, and full year results should be much better than last, in view of present improved conditions in automobile manufacture and recent acquisition of stock of White Front discount-type stores in Los Angeles which the management says should add about $1.20 a share to annual earnings.

Dividends were suspended after the middle of last year, but resumed at the beginning of 1959 at the annual rate of $1.20 a share compared with the $2.50 a share rate in effect from the beginning of 1951 to the middle of 1958.

United Whelan Corporation last October bought 11% of the stock of Interstate, which could be the first step toward control and merger by United Whelan.

R. H. Macy & Co.: Strikes in the New York area, involving the newspapers during the Christmas season, and delivery service in the Spring have kept the probable earnings gain for the fiscal year ending July 31, 1959 to modest proportions.

The Company is trying to offset rising costs by the installation of an elaborate system involving automation in the keeping of records, which will take until 1961 to complete. Meantime, the dividend is secure, but unlikely to be increased because of the need of funds for the program mentioned and the new branches planned to open in Atlanta, Ga., this summer and in Menlo Park, N. J. later. The new units should eventually contribute to larger earning power.

May Department Stores seems to have captured second place in sales volume among department store chains, thanks largely to the acquisition of The Hecht Company. This addition and new branch stores in Cleveland, Denver and Redondo Beach are probably responsible for the fact that earnings are on the mend after declining in the last two years.

Last February May purchased Cohen Brothers of Jacksonville, Fla. It plans to add new units near San Diego, Calif., and Denver, Colo., and has longer-range plans for additional stores in the Los Angeles, Cleveland, Pittsburgh, Washington, and Baltimore areas this year. The funds required by this program may delay an increase in the dividend.

Marshall Field & Co.: Expansion program launched in 1955 has maintained earnings but not provided any appreciable gain in per share profits yet. Large new Milwaukee store opened this year may achieve the desired end. Finances are sufficiently strong to permit an increase in the quarterly dividend of 50¢ a share, or a large year-end extra next April.

Mercantile Stores Company, which has spent more than $40 million for expansion and improvements in the last ten years, bids fair to lift its earnings this fiscal year slightly off the plateau on which they have rested for four years.

The expected increase in earnings could result in a higher total of dividends this year than the $1.65 a share paid annually for the last three years. More than 40% of the stock is owned by officers of Deering, Milliken & Co., a textile manufacturer.

Montgomery Ward & Co. began, in the quarter ended April 30, 1959, to reflect for the first time the effect of the change in its policies begun four years earlier. In those four years the Company has used in an expansion and improvement program, more than $230 million formerly held in cash and securities. Just in the twelve months ended January 31, 1959, five new stores were opened, 105 more were modernized and redecorated, and 55 new catalog stores were established.

Earnings for the full year should be the best since the new management was installed in 1955. However, dividends which have been maintained too close to earnings for five years, are hardly likely to be raised promptly, particularly since the Company plans to spend $30 to $50 million more on expansion and improvement this fiscal year.

J. C. Penney Company reported lower earnings for the thirteen months ended January 31, 1959 than for the calendar year 1957. Increased expenditures for sales promotion and advertising are assigned some of the blame. Another possible cause is the vigorous revamping of the chain going on, involving the closing of 26 stores last year, the moving of 47, and the opening of 19 new stores. This year the Company plans to relocate 46 more stores, improve or enlarge 150 others, and open 20 new stores.

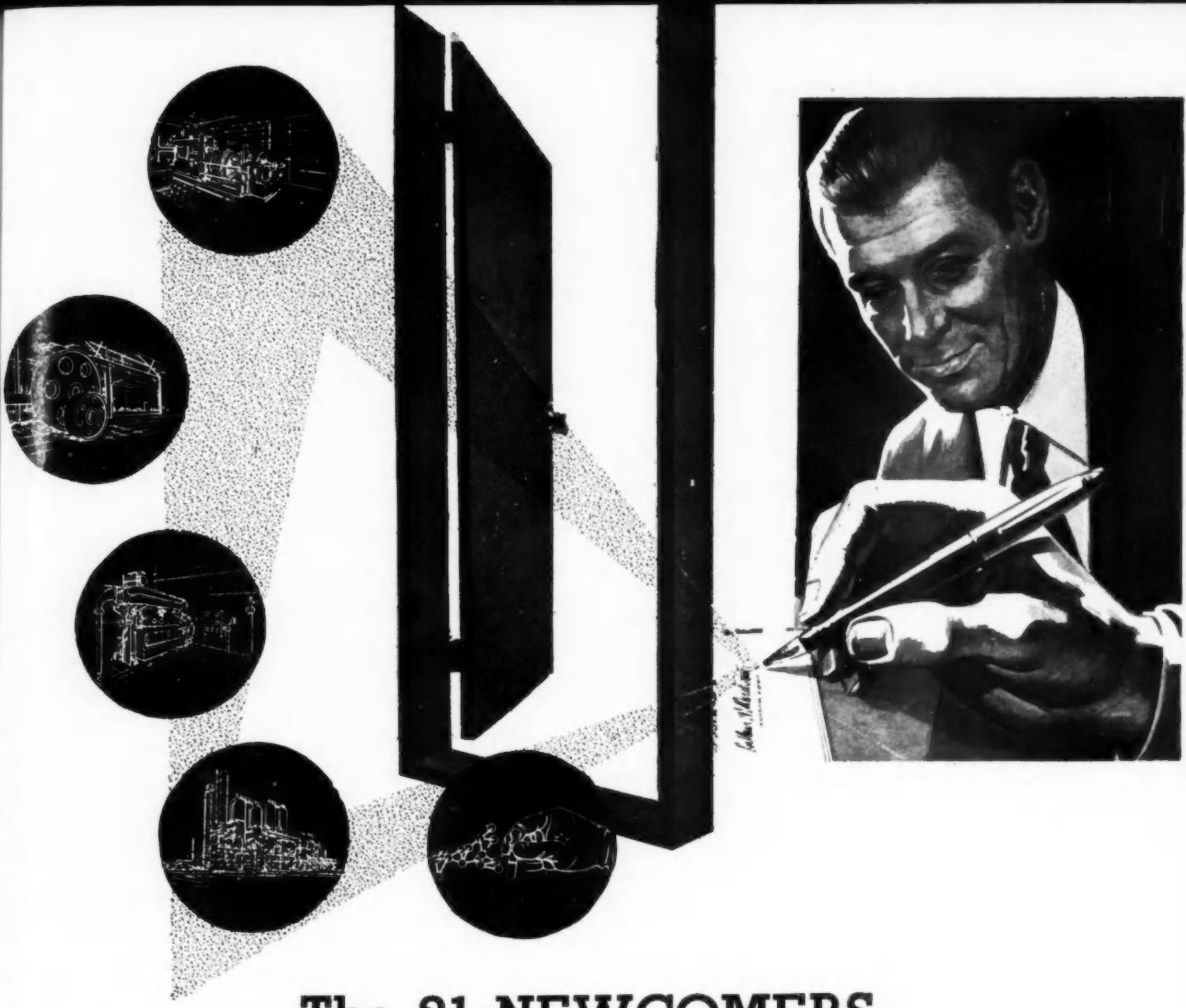
Penney's venture into selling on credit, instituted last year, is reported to have proved so satisfactory that it is being extended from the pilot 24 stores to 144 additional units. The financial demands of this new service and the store-opening program may well hold dividends at the $4.25 a share level despite the expectation of earnings recovery this year.

Sears, Roebuck & Co., reached new highs for both sales and earnings in 1958. In addition to the profits reported, Sears had an equity in undistributed net income of unconsolidated subsidiaries amounting to about 20 cents a Sears share. Most of this was in the Allstate Insurance and acceptance subsidiaries.

Last year the Company obtained $350 million by the first long-term debt financing it has done with the public since 1920. It opened ten new stores, relocated thirteen, enlarged and modernized six, and established 46 new catalog offices. The latter now provide about a fourth of total volume. Plans for 1959 include nine new stores, relocation of eighteen, modernizing and enlarging of two, and opening of 46 more catalog offices.

First quarter earnings were up sharply, and gains are expected to continue large throughout the year, not only because of added facilities, but also because of larger profits and dividends from the insurance and financing subsidiaries. The dividend rate was recently raised from 25 to 30¢ a share quarterly, and there is a possibility of a year-end extra in addition.

END



The 21 NEWCOMERS to the NEW YORK STOCK EXCHANGE in the FIRST HALF of 1959

By JOHN J. WHITCOMB

BUSINESS recovery this year has manifested itself in many ways. One of the most significant is the vigorous rise in new listings on the New York Stock Exchange, focal point of the world of finance. The fact that a score of corporate equities have made their bow on the "big board" in the first half of 1959, more than in all of last year, testifies to the vitality and ingenuity of the American free enterprise system.

Examining the companies whose stocks have been officially accepted on the world's leading auction market, one is impressed with two aspects, namely, the great importance of research as a contributor to growth and the wide opportunity for industrial development still prevalent in a "mature" economy. Just consider the fact that more than 150 individual companies have authorized listing of their shares on the Stock Exchange in the last five and a half years, for example, as evidence of their confidence in being able to establish a record commanding the public's respect.

From the viewpoint of the investor, the dynamic force of research is worth more careful scrutiny. Of the score of original listings in the first six months it seems apparent that research played a significant role in contributing to growth that made possible attainment of high recognition. This observation is especially applicable to the representatives of the drug and electronics groups. As readers of The Magazine of Wall Street are well aware, impressive progress of major drug companies may be traced to the benefits of aggressive promotion of laboratory products in recent years. As a case in point, the Upjohn Company, whose stock first appeared on a national stock exchange in January, noted that more than half of total 1957 sales could be accounted for by items introduced in the previous five years.

Another aspect of this subject that deserves consideration, is the fact that in spite of tightening of listing requirements, more and more managements are seeking accomodations on the Exchange. Desirability of a recognized market where valuations may be set by the public becomes increasingly important today for tax purposes. Many family organizations, for example, have reached the stage of development where equity values may not be readily established except in the open market. In addition, listing is important for concerns that hope to expand through mergers that involve an exchange of stocks. Appraisals determined in the NYSE auction market are considered as authoritative as could be achieved anywhere.

Because the New York Stock Exchange accepts securities for listing only if a company has a record as a going concern with substantial assets and demonstrated earning power as well as a broad list of individual owners, a study of a few details describing individual new listings should prove worthwhile. It may be evident from closer scrutiny that these companies fall in about three categories that may be described as (1) corporations that have attained national stature in sustained progress, (2) companies that have gained national prominence, whose stocks have enjoyed a market on other exchanges, and have decided to take the next step by complying with NYSE requirements; or (3) corporations which may have been owned by relatively few individuals, often in the same family, even though they may have attained national ranking in the business world.

As may be noted in the accompanying tabulation, companies whose stocks have been accepted for NYSE listing this year represent a wide variety of industries, but none is identified with railroads or rail equipment, nor is there a tobacco or farm machinery company in the group, and this absenteeism has prevailed for those categories for more than five years for which statistics are available. Drugs, electronics, aircraft and different kinds of manufacturing are represented along with retailing and natural gas distribution. It may be appropriate now to examine several of these new faces more closely.

The **Upjohn Company** and **U. S. Vitamin & Pharmaceutical**, two major pharmaceutical companies, became identified with the "big board" in the first half of this year. Most interest attached to the former, however, for it not only is older but has become more widely known as a producer and distributor of a variety of ethical drugs. The stock had a rather limited over-the-counter market before management authorized a sizable stock split and provided a block of stock for public distribution which would broaden the stockholder list sufficiently to meet listing requirements. Urgent public demand greeted the formal offering.

Founded in 1886 by a practicing physician, Dr. W. E. Upjohn, the company has forged ahead to become one of the leaders in its field. More than 500 separate types of ethical drugs are offered through a field force numbering more than 1,000, one of the most extensive in the business. Net profit rose last year to the equivalent of $1.43 a share from $1.23 in 1958, adjusted for the 25-for-1 split last November. Earnings eased slightly in the March quarter this year, however, from 37 cents to 36 cents a share. Dividends are being paid at the rate of 16 cents quarterly, up moderately from 52 cents a share for 1958.

U. S. Vitamin, like its predecessor on the Exchange, originated with a young scientist interested in promoting better health—Dr Casmir Funk, who concentrated research on rice polishings in search of a substance he designated as a vitamin. The company came into existence in 1936 and has developed rapidly in meeting a mounting demand for its specialties. Recently a new oral drug considered effective against diabetic conditions has been introduced. Listing has been provided for 2 million shares of $1 per value. Sales reached about $14.5 million in the fiscal year ended November 30, 1958 with an increase of 7.7 per cent, while net profit rose modestly to $1.8 million, equal to 95 cents a share, from about $1.7 million, or 91 cents, in the previous year. UVT made its bow on the "big board" on March 9 at $49 a share, following a transfer from the American Stock Exchange.

Ampex Corporation is an outstanding example of the potentialities of research and development in the exciting field of electronics. It is a comparatively new organization, having been founded in California since World War II. Products include tape recording machines for sound and television images, high quality sterophonic tape recorders and tape recording equipment designed for accumulating information. Instrumentation recorders are used, for example, to telemeter data signals radiocast from missiles either before or after takeoff. Such information may be stored on tape for future analysis and evaluation. More than 75 per cent of products on the market in the fiscal year 1958 had not been introduced three years previously, indicating the rapidity with which research paid off. For the fiscal year ended April 30, 1959, the company reported an 87 per cent rise in net profit to almost $2.9 million from $1.5 million in 1958 on an increase of about 46 per cent in sales to $43.8 million from $30.1 million a year earlier. Earnings were equivalent to $1.29 a share, compared with 84 cents in 1958, adjusted for the 2½-for-1 split last September. No dividends have been paid thus far.

Amphenol-Borg Electronics represents a consolidation of the George W. Borg Corporation with the previously listed Amphenol Electronics, effective at the end of 1958, so that, although regarded as a 1959 debutante, the company to all intents made its bow a year earlier. Products are used chiefly in the automotive and aircraft industries as well as in radio-television and similar electronic outlets. Earnings declined last year, adjusted for the consolidation, with net profit falling to the equivalent of $2 a share from $2.88 in 1957 on a 16 per cent decline in sales. Dividends were placed on a $1.40 annual basis with an increase to 35 cents quarterly at start of the year.

Glen Alden is another newcomer making its appearance as result of a merger representing a consolidation of an old time anthracite mining company with List Industries, a successor to RKO Theatres. The newly enlarged corporation is engaged in such widely diversified activities as motion picture theatre operation, coal production, manufacturing air conditioning equipment and operating textile finishing mills as well as participation in petroleum and other manufacturing fields. As may be surmised from the series of financial transactions involved,

New 1959 Listings on N. Y. Stock Exchange

Company	Chief Business	Date Founded	Net Sales (Mil.) 1958	Net Sales (Mil.) 1957	Earnings Per Share 1958	Earnings Per Share 1957	Interim Earnings 1st Quarter 1959	Interim Earnings 1st Quarter 1958	Indicat. Div.	Recent Price
Ampex Corporation	Video, audio tape	1946	30.1[4]	18.7[4]	0.84[4]	0.60[4]	1.29[4]	0.84[4]	—	76½
Amphenol-Borg Electronics Corp.	Industrial electronics	1933	46.3	53.7	2.00	2.88	.50	.37	1.40	40
Chock Full O'Nuts Corp.	Quick lunch chain	1932	24.6[7]	22.1[7]	1.64[7]	1.10[7]	.54[5]	.43[5]	1.00	29
The Diners' Club, Inc.	Credit card service	1949	140.0[3]	91.0[3]	1.29[3]	.83[3]	1.50[3]	1.29[3]	a	34½
Glen Alden Corp.	Coal, theatres, etc.	1874	54.7	61.9	d.82	d1.31	.25	N.A.	—	19
Globe-Wernicke Industries, Inc.	Metal stampings, etc.	1929	24.8	33.3	1.65	2.57	.31	.22	1.20	22
Kellogg Company	Packaged cereals	1922	220.0	213.0	2.04	1.88	N.A.	N.A.	1.00	36
Kendall Company (The)	Surgical gauze, etc.	1924	103.4	106.8	3.80	3.60	.81	.63	2.00	59½
Loew's Theatres, Inc.	Movie theatre chain	1954	42.5	42.6	.74	.62	0.36[6]	0.41[6]	—	14
McDonnell Aircraft Corp.	Aircraft and missiles	1939	442.4	335.3	6.33	6.34	4.27[1]	4.21[1]	1.00[2]	39
National-Standard Co.	Steel wire products	1955	39.0	43.0	2.75	3.24	1.62	1.53	1.60	50
Neptune Meter Company	Water meters, etc.	1892	37.3	33.8	2.70	2.59	.58	.58	1.40	34
North American Car Corp.	Freight car leasing	1926	16.0	15.4	2.04	2.02	.53	.46	1.00	39½
Rochester Telephone Corp.	Independent phone system	1920	17.9	16.4	1.49	1.33	1.43[3]	1.23[3]	1.00	25½
Rubbermaid Incorporated	Molded, plastic prods.	1920	21.5	21.1	.92	.90	.47[8]	.38[8]	.30	16¼
Texas Gas Transmission Corp.	Natural gas pipelines	1945	104.2	94.9	2.06	1.79	.59	.60	1.20[2]	29
Universal Oil Products Co.	Oil research, processes	2000	7.0	9.9	1.52	1.25	N.A.	N.A.	.50	21
U.S. Vitamin & Pharmaceutical Corp.	Ethical specialties	1935	14.5	13.5	.95	.91	.24	.22	.60	37½
The Upjohn Company	Ethical drugs	1909	146.1	128.1	1.43	1.23	.36	.37	.64	43
Warner Company	Highway aggregates	1929	23.4	23.9	1.40	1.59	.23	d.22	1.00	26
White Stores, Inc.	Auto appliance chain	1946	45.6	36.8	2.27	2.15	.43	.27	.80	25¼

d—Deficit.
N.A.—Not available.
a—5% in stock.
1—9 mos. ended March 31.
2—Plus stock.
3—12 mos. ended March 31.
4—12 mos. ended April 30.
5—3 mos. ended April 30.
6—28 weeks ended March 12.
7—Year ended July 31.
8—6 mos. ended Mar. 31.

records of earnings and dividends are meager. GA has attained a measure of market popularity as a trading medium in its brief NYSE career.

An addition to the "big board" representation in the aircraft industry is **McDonnell Aircraft** of St. Louis, incorporated 20 years ago. The company is credited with producing the Navy's first jet plane in 1946 and currently is engaged in building the Navy's latest jet fighter, a missile-bearing interceptor capable of flying more than twice the speed of sound. MAC made its bow at $47 a share on March 31. Results for the fiscal year ended June 30, 1959 are not yet available, but for the nine months ended March 31 the company reported net profit of $7.0 million or $4.27 a share, compared with about $6.6 million, equal to $4.21 a share in the corresponding period a year earlier. Dividends are being paid at a $1 annual rate.

About a week later another transfer from the American Stock Exchange made its NYSE debut, this being **Neptune Meter Company,** formed almost four-score years ago. The company is a leader in production of liquid meters. Sales set a new high in 1958 at $37.3 million, compared with $33.8 million in 1957, and net profit climbed to $2.70 from $2.59 a share a year earlier. The stock bowed in on April 6 at $37 a share.

Two stocks that had enjoyed listing on the Midwest Stock Exchange for some time joined the "big board" this year, namely, **National-Standard** and **North American Car.** The former came to New York in April and the latter last month. Founded in 1907, National-Standard, leading manufacturer of specialty wires, never has failed to show a profit in any year of its half-century history and has an unbroken dividend record of 44 years. Quarterly distributions are being made at the rate of 40 cents a share. The stock began its NYSE career at $46.50.

North American Car owns and operates a large fleet of tank, refrigerator and hopper cars for specialized needs of shippers. It has a long record of stable earnings and gradually rising dividends. Gross revenues have more than doubled in the last decade. Improving freight volume points to another peak in revenues in 1959. The stock made its initial NYSE appearnce at $40.25 a share June 30.

Representation of the petroleum industry in NYSE listings was enlarged moderately with addition of **Universal Oil Products Company** and **Texas Gas Transmission Corporation.** The former began its "big board" career April 1 at $23.25 a share six weeks after having been marketed by a charitable trust, the previous owner. Its 2.9 million shares of $1 per value now are owned by more than 20,000 individuals. The transmission company's shares, previously traded over the counter, came to listed market April 14 at $35.25 a share. The 3,714 miles of pipe line extend from the *(Please turn to page 524)*

FOR PROFIT AND INCOME

Out Of Favor

Following a long period of superior market performance, stocks of food-store chains have been "in the doghouse" for some months. Various issues are down 20% or more from highs reached late last year or early this year. A reason cited is that store expansion may be too ambitious, promising keener competition. But sales and earnings are still rising; marked population growth enlarges food needs each year; and intense competition, and narrow profit margins, have always been characteristic of this business. So the principal reason why the stocks have fallen importantly is that they were too high at the advanced earlier levels. On average, earnings about doubled in the last ten years. That is good, but not remarkable. A sizeable number of electric utilities—now also out of favor — have done that well or better. Even at present levels, most food store stocks appear at least adequately priced, with some selling around 17 to 18 times earnings and most dividend yields well below average. So the adjustment could go further, though it is probably well advanced.

First National Stores

Operating food stores mainly in New England, First National Stores has a solid position; and absence of any capitalization ahead of the common makes the stock a relatively conservative issue. Continuous since 1914, dividends are at $2.50 and more than twice covered. Profit was $5.28 a share in the fiscal year ended last March 31, and should be around $5.50, if not moderately more, in the current year. The stock fell from a 1958 high of 60⅜, rallying to 65 at present. The price-earnings ratio of about 11.9 compares with an average of around 10.8 as far back as the 1950-1954 period. The dividend yield is 3.8%. It is hard to see why the issue should go much, if any, under the recent low, in view of realistic valuation. Investment buying on dips for longer-range purposes should work out satisfactorily.

Support

Despite the impact of high and

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Litton Industries	9 mos. Apr. 30	$2.29	$1.55
Louisville & Nashville R.R.	4 mos. Apr. 30	1.54	1.18
Reliance Elec. & Eng.	Quar. Apr. 30	.82	.65
Sears, Roebuck & Co.	Quar. Apr. 30	.36	.29
Western Union Telegraph	4 mos. Apr. 30	.77	.45
Divco-Wayne Corp.	Quar. Apr. 30	.73	.59
Lane Bryant, Inc.	Quar. Apr. 30	.89	.67
Chock Full O'Nuts	Quar. Apr. 30	.54	.43
Emerson Radio & Phonograph	26 weeks May 2	.49	.08
U. S. Plywood Corp.	Quar. Apr. 30	1.43	.58

rising bond yields, a minority of income stocks are meeting demand at prices either close to or not significantly under their 1959 highs, with a few even at new highs. Examples include: Beatrice Foods, Borden, C. I. T. Financial, Commercial Credit, Florida Power & Light, Gulf States Utilities, Kresge, Peoples Gas, Texas Utilities and Toledo Edison. In a few cases, of course, the description would more accurately be growth stocks than income stocks. That is especially true, for example, of Florida Power & Light and Texas Utilities, both with outstanding profit-growth trends.

Diamond Alkali

In the chemical industry, one of the sharpest 1959 profit gains will be that of Diamond Alkali, maker of alkalis, chlorine, chromium chemicals, silicates and a number of other items. Officially estimated profit around $1.10 a share for the second quarter, brought first-half net to approximately $1.86 a share, from 86 cents a year ago. As the trend is upward, full year earnings could reach $3.80 or so a share, compared with 1958's moderately reduced $2.32. The previous peak figure was $3.83 in 1956. Dividends are at $1.80. Now around 61½, about equal to its 1956 high, the stock is priced in the vicinity of 16 times earnings, which is a fairly moderate figure as chemical valuations go. Assuming a further market rise this summer, if not also later in this business cycle, the stock appears to have a basis for working higher.

Selective View

As heretofore noted, the partial recovery in outlays for new plant and equipment should go further next year and is generally favorable to makers of machinery, but a selective view of the stocks is required. Present prospects differ considerably among the various sections of this field, as well as from company to company. With shipments much under prior best levels, the 1959 rebound in profits of most machine tool makers will be moderate. However, National Acme could about double 1958's low $1.90 a share, since it makes mostly standard tools rather than special-purpose machines which require a lead time in design and delivery. Makers of steam generating equipment mostly for utilities, such as Babcock & Wilcox and Combustion Engineering, may be some 18 months away from a full profit recovery. The general outlook is much improved for machinery used in construction, earth-moving and materials-handling. But medium-term prospects are much better for Caterpillar Tractor, Clark Equipment (which also makes automotive parts) and Yale & Towne (also producer of builders' hardware) than for Bucyrus-Erie or Jaeger Machine. In the broad class of industrial machinery, prospects are also mixed. With reference both to 1959 profits and present price-earnings ratios, favored issues include Blaw - Knox (previously recommended here at lower levels), Chain Belt and Link-Belt. Making equipment mainly for the steel industry, Mesta Machine is well situated.

Brooklyn Union Gas

Around 53½ now, this stock is off from earlier 1959 high of 59½, in line with general performance of utilities. It should have 1959 earnings between $3.35 and $3.45 a share, against 1958's $3.17. The dividend is $2.20, the current yield little over 4.1%. As matters stand now, this is just another fairly well-situated gas utility. But there is an "angle" with important long-range promise. The service area includes Staten Island, which is twice the size of Manhattan but largely undeveloped because, while there are bridges to New Jersey, transportation to the heart of New York City is via ferries. The planned Brooklyn-Staten Island bridge will change the picture. Although it will not be completed before 1965, anticipatory building and development on Staten Island is already being significantly stimulated. In time, the addition to the company's revenue and earning power should be relatively large. We canont say when the stock might begin to discount this prospect. It could start to do so well ahead of events, since canny investors look ahead. Purchases here, by those willing to hold on with patience, should prove amply rewarding.

GE and WX

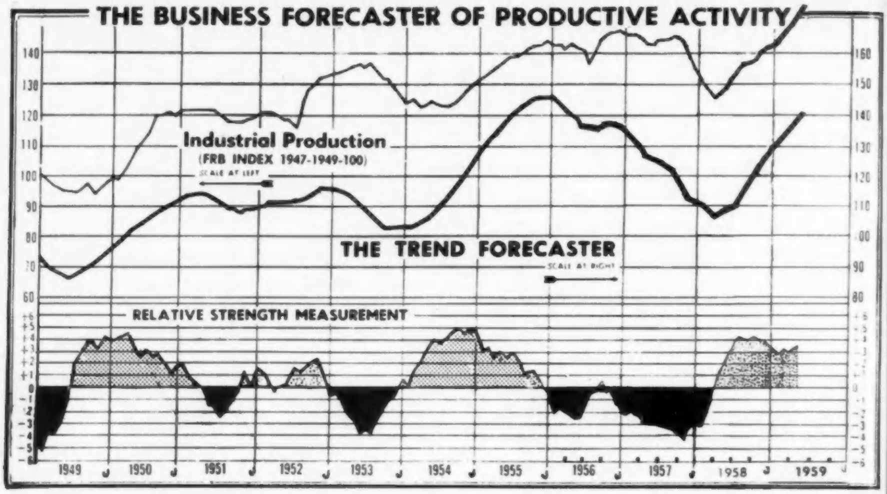
General Electric is first, Westinghouse second, in a wide line of electrical equipment (both capital goods and home appliances), and in the whole range of electronics. Consumer products provide roughly a fourth of the sales of each. Currently around 81, GE is priced in the vicinity of 28 times estimated 1959 record earnings, WX at 95, around 21 times earnings. Low in both cases, current dividend yield is about 2.5% for GE and 2.1% for WX. In growth records, the contrast is sharp. WX has yet to better record 1950 profit of $5.36 a share. The record GE profit of $2.84 a share in 1957, which may be equalled or slightly exceeded this year, was 42% above 1950's, with earnings on the Dow industrial average up about 18% for the period. Taking a longer backward look, comparing 1957 with 1929, earnings of WX were up 64%, of GE about 278%, on the Dow average up some 226%. This year, WX may better 1958 net of $4.25 a share by materially less than 10%. Both stocks are worth holding by long-pull investors who bought them at much lower prices. Both are richly priced for new buying, although that does not rule out some possible further

(Please turn to page 528)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Food Giant Markets	Quar. Mar. 29	$.01	$.34
Pittsb. & West Virginia Rwy.	4 months Apr. 30	.30	.36
Hall (W. F.) Printing Co.	Year Mar. 31	2.31	2.52
Carrier Corp.	Quar. Apr. 30	1.03	1.32
First National Stores	Year Mar. 28	5.28	5.37
Continental Motors	6 mos. Apr. 30	.40	.52
Cudahy Packing Co.	6 mos. May 2	.21	.67
Dresser Industries	6 mos. Apr. 30	1.01	1.11
Rohr Aircraft Corp.	9 mos. Apr. 30	1.28	1.72
Daystrom, Inc.	Year Mar. 31	1.32	2.57

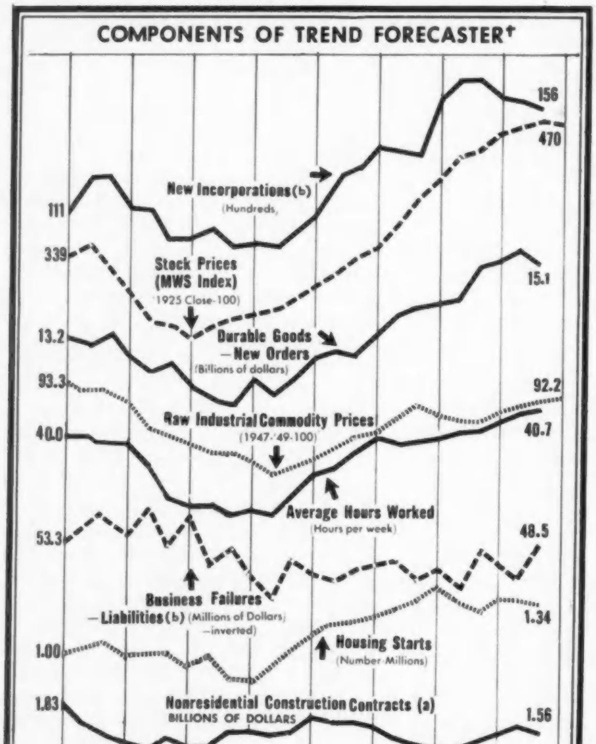
the Business



Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

At mid-summer, the position of the leading indicators entering into the Trend Forecaster continues strong. The Trend Forecaster itself has now recovered all of the ground lost in the long decline of 1956-1957, and is about to reach into record high ground, along with the Industrial Production index and other measures of business activity.

As of the latest figures, the majority of the component series are still rising. Hours worked, raw industrial commodity prices and business failures (inverted), all improved in the latest month. Stock prices were slightly lower in the month of June but have advanced rapidly, thus far in July. The two construction series, as well as new orders for durable goods and new incorporations have developed month-to-month irregularity but their intermediate-term trends continue upward. The Relative Strength Measurement has persisted above the +3 level, even advancing somewhat in the past few months. The general business outlook thus appears healthy through the last half of the year, although a steel strike would induce a short-term dip.

Analyst

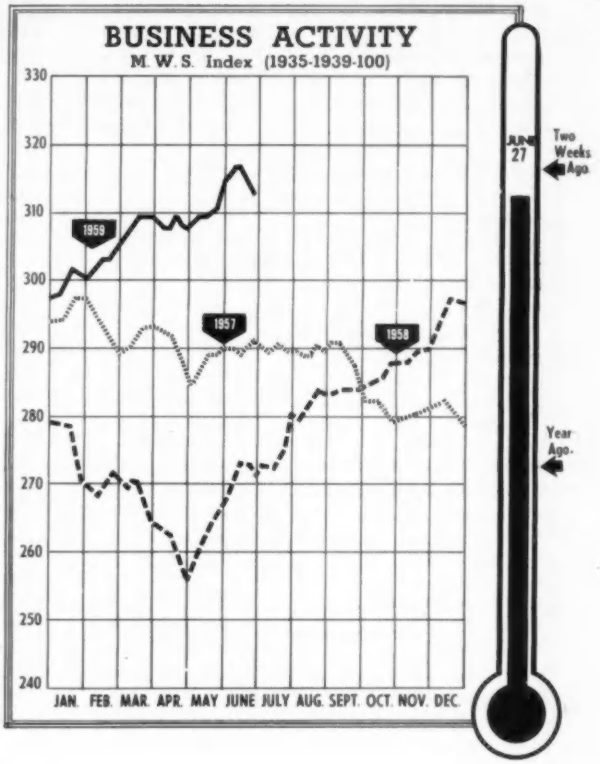
CONCLUSIONS IN BRIEF

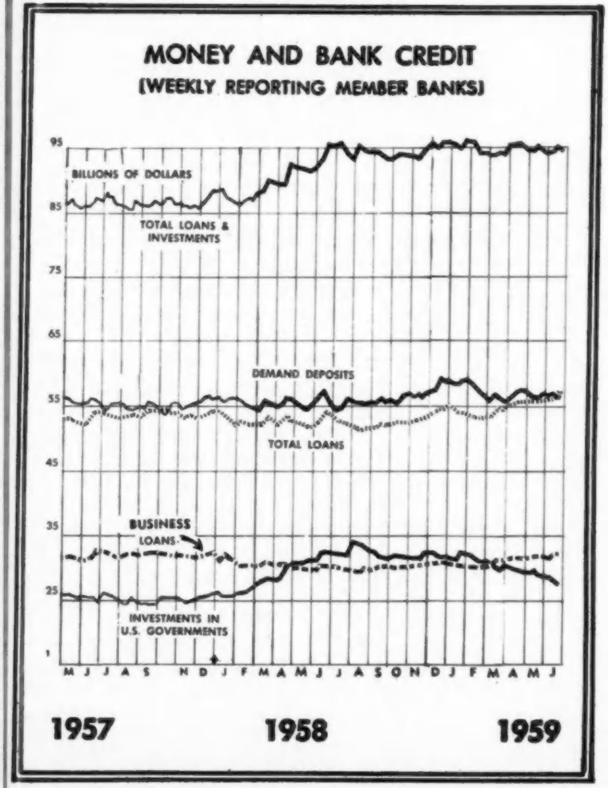
PRODUCTION — advancing, but now only slowly. Steel output has subsided a little; automobile production, while strong, is no longer rising. Big strength now in machinery industries, particularly general industrial machinery. Outlook: slow rise for next three months.

TRADE — volume still clinging to the better-than-$18 billion range, but not rising any longer. Stability around this range probable for remainder of the year. This leaves plenty of room for booming soft-goods sales, and a record Christmas.

MONEY & CREDIT — tightness continues, with no letup in sight. Mortgages taking a big bite out of long-term funds, and there is a possible rise in corporate demands for long-term money in the last half. Short-term rates also likely to rise, thanks to heavy inventory borrowing.

COMMODITIES — price increases still not spreading into a general rise, owing to heavy supply. Farm commodity prices showing scattered weakness, and even some industrial commodities under pressure. Outlook: slight updrift in broad commodity indexes, but no big jump in 1959.





AT this writing, the business uptrend has clearly brought the level of activity into new record ground, and a further advance seems foreshadowed for the third and fourth quarters of this year. However, there is also some real indication now that the sharpest part of the ascent is just about over; the recovery is passing into a phase of broad, but slow, expansion.

With this transition, the interest of forecasters and business men is turning increasingly from 1959 to 1960. What kind of year lies ahead? A bigger boom than in 1959? Inflation? Or perhaps a turning point into recession?

Obviously, conjecture about 1960, while exciting, still contains substantial margins of error. But there are a few things that now merit comment. It is unlikely, for example, that the present rate of inventory accumulation can be maintained into 1960; another nine months of increase at the present rate would put business stocks into a very high range by the Spring of 1960. Similarly, debt increases in both the mortgage and installment form are now proceeding at record or near-record levels; another six or nine months of such an advance and the rate of debt repayment will clearly be back at a new high relative to personal income. And in three more quarters, the level of plant and equipment spending, which took an extremely sharp dip during the recession, may again be approaching the old high.

These reflections raise the question of what will be available as new fuel for the boom after about

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	152	150	128
Durable Goods Mfr.	1947-'9-100	May	168	164	134
Nondurable Goods Mfr.	1947-'9-100	May	143	142	126
Mining	1947-'9-100	May	126	123	108
RETAIL SALES*	$ Billions	May	18.3	18.0	16.6
Durable Goods	$ Billions	May	6.1	6.1	5.2
Nondurable Goods	$ Billions	May	12.2	11.8	11.3
Dep't Store Sales	1947-'9-100	May	145	140	134
MANUFACTURERS'					
New Orders—Total*	$ Billions	May	30.3	31.2	25.0
Durable Goods	$ Billions	May	15.1	15.8	11.4
Nondurable Goods	$ Billions	May	15.2	15.4	13.6
Shipments*	$ Billions	May	30.5	30.3	25.2
Durable Goods	$ Billions	May	15.4	15.2	11.6
Nondurable Goods	$ Billions	May	15.1	15.1	13.6
BUSINESS INVENTORIES, END MO.*	$ Billions	Apr.	87.3	86.4	87.6
Manufacturers'	$ Billions	Apr.	50.8	50.3	51.5
Wholesalers'	$ Billions	Apr.	12.1	12.0	12.2
Retailers'	$ Billions	Apr.	24.4	24.2	23.9
Dept. Store Stocks	1947-'9-100	Apr.	151	148	143
CONSTRUCTION TOTAL	$ Billions	June	5.0	4.6	4.3
Private	$ Billions	June	3.5	3.2	2.9
Residential	$ Billions	June	2.1	1.9	1.6
All Other	$ Billions	June	1.4	1.3	1.3
Housing Starts*—a	Thousands	May	1340	1390	1039
Contract Awards, Residential—b	$ Millions	May	1677	1831	1346
All Other—b	$ Millions	May	1865	1947	2057
EMPLOYMENT					
Total Civilian	Millions	May	66.0	65.0	64.1
Non-Farm	Millions	May	52.0	51.4	49.9
Government	Millions	May	8.2	8.1	7.9
Trade	Millions	May	11.2	11.1	11.0
Factory	Millions	May	12.3	12.2	11.2
Hours Worked	Hours	May	40.5	40.3	38.7
Hourly Earnings	Dollars	May	2.23	2.23	2.12
Weekly Earnings	Dollars	May	90.32	89.87	82.04
PERSONAL INCOME*	$ Billions	May	376	373	351
Wages & Salaries	$ Billions	May	256	253	233
Proprietors' Incomes	$ Billions	May	59	59	58
Interest & Dividends	$ Billions	May	33	33	32
Transfer Payments	$ Billions	May	26	26	26
Farm Income	$ Billions	May	17	17	19
CONSUMER PRICES	1947-'9-100	May	124.0	123.9	123.6
Food	1947-'9-100	May	117.7	117.6	121.6
Clothing	1947-'9-100	May	107.3	107.0	106.7
Housing	1947-'9-100	May	128.8	128.7	127.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	May	112.7	112.5	107.6
Bank Debits*—g	$ Billions	May	92.0	93.7	80.4
Business Loans Outstanding—c	$ Billions	May	31.7	31.2	29.7
Instalment Credit Extended*	$ Billions	May	4.0	3.9	3.2
Instalment Credit Repaid*	$ Billions	May	3.6	3.5	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	5.4	4.3	4.9
Budget Expenditures	$ Billions	May	6.2	6.4	5.8
Defense Expenditures	$ Billions	May	3.6	3.9	3.6
Surplus (Def) cum from 7/1	$ Billions	May	(14.0)	(13.2)	(7.0)

PRESENT POSITION AND OUTLOOK

mid-1960. Assuming no tax cuts—and the present views of the Administration are that a possibility of tax cuts is not yet in sight—there is little likelihood of any stimulation from the government sector; outlays of business for investment and inventories, combined, is also likely to be in the neighborhood of a peak; and personal spending for goods and services may well have passed their phase of greatest stimulation.

In general, and granting the obvious probabilities of error, the last half of 1960 is thus beginning to shape up as a new trial period for the postwar business cycle.

* * *

PRODUCTION ROUNDUP — as of the beginning of summer, output is now running about 20% better than at the trough of the 1958 recession, and is also running about 5% better than at any time in the past. Even aggregate hard-goods output, which had fallen to almost 30% below its peak pace of 1957, is now setting new records, thanks to steel, autos and a rising rate of machinery output. Soft goods production appears to have leveled off for the time being at about 145% of its 1947-1949 average, and further gains in soft goods production this fall will be moderate.

* * *

AVERAGE WEEKLY EARNING OF FACTORY WORKERS — in the past year of recovery, factory-worker payrolls have soared, reflecting a lengthening of the work week and sharp gains in average hourly earnings. In recent months, weekly earnings for the average worker in manufacturing has run above $90, the highest on record and almost $10 a week more than in early 1958. In durables industries, the average paycheck is now very close to $100, or about twice what it was in so recent a year as 1947.

* * *

PLANT AND EQUIPMENT SPENDING—its on the way up, at a moderate but perhaps accelerating rate. At present, the declared intentions of businessmen point to an annual

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter I	1958 Quarter IV	1958 Quarter III	1958 Quarter I
GROSS NATIONAL PRODUCT	467.0	453.0	439.8	427.1
Personal Consumption	300.5	295.9	291.5	286.2
Private Domestic Invest.	70.2	61.6	54.5	50.9
Net Foreign Investment	0.3	0.4	1.7	1.7
Government Purchases	96.6	95.2	92.0	88.3
Federal	54.3	54.2	52.2	49.7
State & Local	42.3	41.0	39.9	38.6
PERSONAL INCOME	365.7	359.5	358.6	348.3
Tax & Nontax Payments	44.8	43.7	43.5	42.3
Disposable Income	320.9	315.8	315.1	306.1
Consumption Expenditures	300.5	295.9	291.5	286.2
Personal Saving—d	20.4	19.9	23.6	19.9
CORPORATE PRE-TAX PROFITS	—	45.2	37.9	31.7
Corporate Taxes	—	23.0	19.3	16.1
Corporate Net Profit	—	22.2	18.6	15.5
Dividend Payments	12.5	11.8	12.5	12.5
Retained Earnings	—	10.4	6.1	3.0
PLANT & EQUIPMENT OUTLAYS	31.2	30.0	29.6	32.4

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 27	313.3	315.5	271.8
MWS Index—per capita*	1935-'9-100	June 27	229.9	232.2	203.5
Steel Production	% of Capacity	July 3	84.9	87.8	51.0
Auto and Truck Production	Thousands	July 3	141	163	46
Paperboard Production	Thousand Tons	June 27	324	328	277
Paperboard New Orders	Thousand Tons	June 27	306	295	273
Electric Power Output*	1947-'49-100	June 27	258.6	250.3	220.3
Freight Carloadings	Thousand Cars	June 27	698	724	627
Engineering Constr. Awards	$ Millions	June 29	474	492	466
Department Store Sales	1947-'9-100	June 27	118	143	110
Demand Deposits—c	$ Billions	June 24	56.5	57.2	55.3
Business Failures—s	Number	June 25	256	267	335

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

PRESENT POSITION AND OUTLOOK

spending total of about $32.6 billion in 1959, but the estimate is doubtless too low. It seems probable now that as profits continue to climb and investment opportunities improve, the capital spending rate may also head up, somewhat more sharply. At present, there is a good possibility that total spending will reach about $34 billion. This compares with about $30.5 billion in 1958, and the all-time peak of $37 billion in 1957. At present, and on a quarterly, seasonally adjusted basis, outlays in nonmanufacturing industries are only about $1 billion off their peak rate of mid-1957; but manufacturing industries are still spending about $3.5 billion less than earlier peak rates.

Behind the gradual recovery in capital spending is, of course, the continuing need to modernize equipment to hold labor costs in check. Not yet present in the spending pattern is a wave of expansion-spending such as hit the capital goods industries in 1956 and 1957. Although capital spending now is in a strong uptrend, the existence of over-capacity will militate against a run-away boom in this sector.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 Range High	1959 Range Low	1959 June 26	1959 July 2
300 Combined Average	483.1	436.9	472.2	483.1H
4 Agricultural Implements	457.5	356.2	454.0	457.5H
3 Air Cond. ('53 Cl.—100)	137.2	125.0	127.5	128.7
10 Aircraft ('27 Cl.—100)	1375.1	1191.0	1240.1	1252.4
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1339.5	1349.5
4 Aluminum ('53 Cl.—100)	551.4	392.0	534.2R	551.4H
5 Amusements	239.1	200.5	235.2	235.2
6 Automobile Accessories	505.8	413.4	485.7	505.8H
6 Automobiles	123.3	93.7	119.5	123.3H
4 Baking ('26 Cl.—100)	41.3	38.7	39.0	39.8
4 Business Machines	1395.5	1225.9	1304.2	1356.4
6 Chemicals	808.4	692.9	794.8	808.4
4 Coal Mining	34.5	28.1	33.4	33.6
4 Communications	203.8	164.6	187.5	195.6
9 Construction	178.9	158.7	166.5	169.6
7 Containers	1142.6	988.8	999.8	1054.8
6 Copper Mining	344.6	280.7	311.2	316.8
2 Dairy Products	157.4	138.8	154.5	156.0
6 Department Stores	137.9	119.1	135.6	137.9H
5 Drugs-Eth. ('53 Cl.—100)	467.4	379.5	435.5	451.4
6 Elec. Eqp. ('53 Cl.—100)	324.6	268.8	306.7	324.6H
3 Finance Companies	748.1	661.8	733.7	748.1H
5 Food Brands	446.1	406.3	426.2	430.2
3 Food Stores	279.6	247.1	249.8	252.5

(Nov. 14, 1936 Cl.—100)	High	Low	June 26	July 2
100 High Priced Stocks	301.7	268.4	294.6	301.7H
100 Low Priced Stocks	655.3	585.4	636.5	650.9
5 Gold Mining	996.6	853.0	937.5	946.0
4 Investment Trusts	190.6	174.2	177.9	179.7
3 Liquor ('27 Cl.—100)	1564.6	1492.2	1474.3	1489.4
8 Machinery	554.4	452.4	532.2	554.4H
3 Mail Order	372.6	253.1	357.9	372.6H
4 Meat Packing	249.6	204.4	229.9	233.8
5 Metal Fabr. ('53 Cl.—100)	211.2	181.3	207.7	211.2H
9 Metals, Miscellaneous	409.6	369.4	369.4	376.7
4 Paper	1275.4	1170.1	1193.5	1228.6
22 Petroleum	885.5	776.9	793.6	793.6
21 Public Utilities	365.4	338.3	338.3	345.1
6 Railroad Equipment	99.8	86.9	97.2	98.8
20 Railroads	76.7	71.7	75.3	76.0
3 Soft Drinks	674.7	599.8	651.7	674.7H
12 Steel & Iron	457.3	392.5	442.1	457.3H
4 Sugar	144.7	95.2	95.2	95.2
2 Sulphur	863.3	680.0	695.2	680.0L
11 TV & Electron. ('27 Cl.—100)	107.1	65.6	99.5	103.7
5 Textiles	238.4	176.6	234.9	238.4H
3 Tires & Rubber	281.8	216.1	264.9	281.8H
5 Tobacco	191.5	172.9	184.8	189.8
3 Variety Stores	350.9	331.4	341.1	347.6
20 Unclassif'd ('49 Cl.—100)	277.8	239.8	268.3	275.4

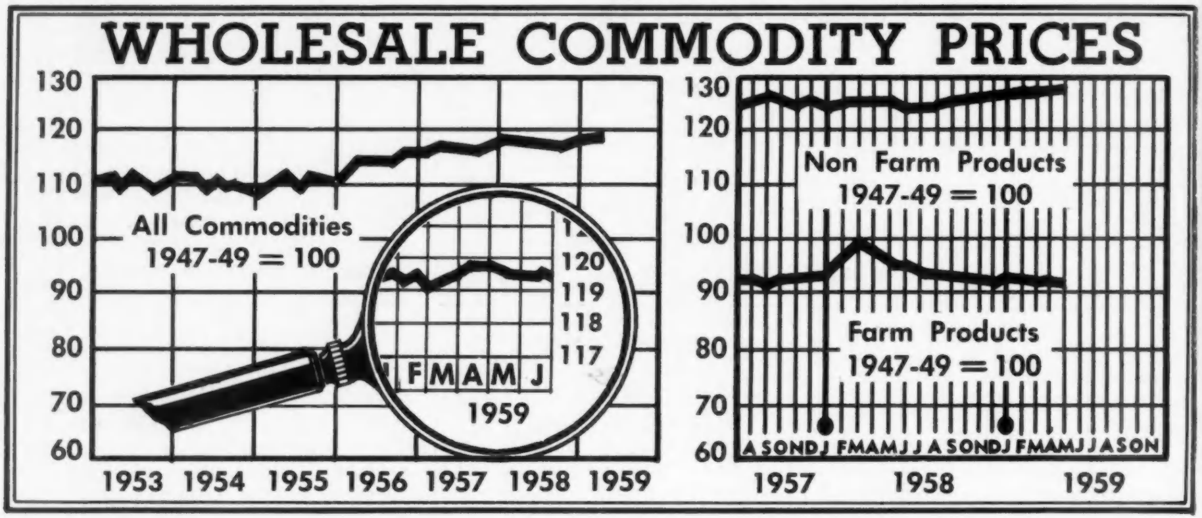
H—New High for 1959. L—New Low for 1959. R—Revised.

Trend of Commodities

SPOT MARKETS—Among sensitive commodities, raw foodstuffs were decidedly lower in the fortnight ending July 2, while raw industrial materials improved slightly. The BLS daily price index of 22 leading commodities lost 0.8%, reflecting this weakness in food prices, while the index of raw industrial materials added 0.3%. Higer prices were registered by hides, steel scrap, and wool tops, while copper scrap, cotton and tin were lower. The rank and file of commodities were little changed in the last two weeks of June, although meat prices dropped rather sharply, accounting for a decline of 0.1% in the BLS comprehensive wholesale price index. The index of all commodities other than farm products and foods held unchanged. This index has remained in a narrow range for months, thus far, belying the wide - spread talk of inflation.

FUTURES MARKETS—Commodity futures were mixed again in the two weeks ending July 2, with advances and declines in about equal proportions. Wheat, oats corn, lard, world sugar, coffee, cocoa and copper declined. Soybeans and cotton futures were mixed. The Dow-Jones Commodity Futures Index lost 0.16 points to close at 150.34.

Wheat futures were moderately higher in the period under review and the nearby September option added 1¾ cents to close at 191⅜. The strength in wheat in the heart of the harvesting season surprised some observers, although some of the reasons for strength were evident. These included smaller output this year and adequate storage space for wheat entering the loan. If the usual large-scale buying by bakers and millers soon enters the market, wheat is in a position to move ahead more rapidly.



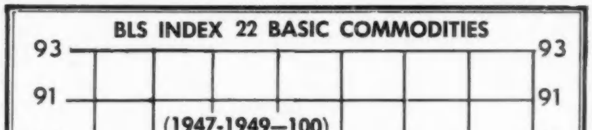
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	June 30	119.3	119.4	119.2	60.2
Farm Products	June 30	89.4	90.1	95.0	51.0
Non-Farm Products	June 30	127.9	127.9	125.6	67.0
22 Sensitive Commodities	July 2	87.3	88.0	86.1	53.0
9 Foods	July 2	80.3	82.3	90.4	46.5
13 Raw Ind'l. Materials	July 2	92.4	92.1	83.2	58.3
5 Metals	July 2	94.7	95.2	86.5	54.6
4 Textiles	July 2	80.1	79.8	77.1	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	160.5	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



Mrs. Peff, President, Superior Air Products Co., Newark, N. J., shown in her office with Supairco's recently developed liquid-oxygen "vacuum bottle."

This Age Of Miracles Reshaping the American Economy

(Continued from page 493)

manufacture, with **General Electric** probably the most important.

The Bell Laboratories, mentioned above as the originator of the transistor, are one of the country's most active participants in research and development. While their investigations have hardly been confined to the telephone, it should be appropriate to point out in passing that this familiar instrument has itself gone through a series of amazing transformations. It seemed marvelous when the first coast-to-coast telephone line, capable of carrying a single conversation, was strung in 1915, but the transcontinental microwave radio-relay system installed in 1951 can transmit 600 separate conversations on a single beam. Again, the first crude dial system of 1892 represented one of the earliest working examples of automation—a word then unknown—but it was primitive as compared with the Direct Distant Dialing, now being progressively introduced by the Bell System. As early as the mid-1960's it is expected that 95% of all of the telephones in the country will be within direct dialing reach of each other.

The Marvelous Mind of Man

Another wonderful device which defies the comprehension of any layman to explain, is videotape, the process of recording sound and picture simultaneously on a single reel of magnetized plastic tape. This equipment was first introduced by **Ampex Corp.** in 1956, while **Radio Corporation** brought out its models only a few months ago. The tape is manufactured by **Minnesota Mining & Mfg.** and **Audio Devices.** Already in its short existence, videotape threatens to revolutionize the television industry—in an artistic as well as a commercial sense. In addition to its simplicity, a major advantage of the tape is that it can be played back immediately after a take, to see what cutting or revision is necessary. Quality is also so high that taped shows can barely be distinguished from live shows. These characteristics suggest that taped programs may soon begin to replace nearly all live shows, and even to threaten the libraries of conventional films now forming such a large ingredient of standard TV fare.

Correction: In our issue of May 9, 1959, the story "Auto Parts and Accessory Makers" had a table indicating that Midland-Ross dividends in 1957 amounted to \$.75 per share. This was a typographical error as the correct dividend for that year was \$3.75 per share.

On the Way From a "Chicken Coop" to a $50,000 House

A significant breakthrough in an entirely different field is the post-war surge in prefabricated housing. Until very recently, it could be accurately stated that home construction was the single major industry not yet reached by the Industrial Revolution, and the charge remains substantially true even now. Building materials are carried in small packages to individual lots and assembled primarily by hand labor; material wastage is high. Prefabrication represents, however, at least a partial application of assembly line techniques, and also allows the economy of mass buying of materials and fixtures. To be sure, two or three companies have been engaged in the manufacture of prefabricated housing for years, but their products looked little better than glorified chicken coops, and the modern prefabrication industry is strictly a development of the very recent past. Because of restrictive building codes "prefabs" are still unfamiliar in many areas, but it is quite erroneous to equate them with flimsy Army housing. Although the prefab manufacturers find their best market at the lower end of the housing scale, they provide designs up into the $50,000 range.

The prefab market already claims one out of every ten single-family houses constructed, and the industry has its sights set upon complete saturation of the under - $20,000 field. Leading members of the industry include **United States Steel Homes** and **Harnischfeger Homes,** both 100% owned subsidiaries of the parent companies indicated.

We Haven't Entirely Tamed The Sun Yet But We're On Our Way

One development which has not yet quite entered the realm of widespread practical introduction and yet is well beyond pure experiment is the utilization of solar energy. As is so often the case with "new" discoveries, isolated industrial applications of solar energy have been tried for years, and yet the success was never great enough to stimulate whole-hearted follow-up. As shortages of other energy sources have been threatened in recent years, however, the unlimited aspect of sunlight has been recognized as an extremely valuable attribute and research into methods of utilizing it have accelerated.

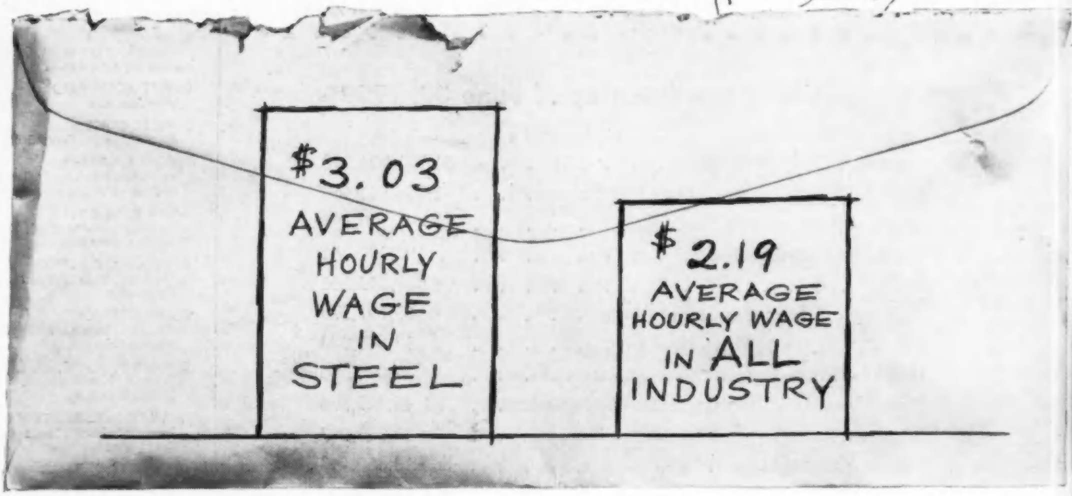
So far, the practical uses of sunlight have been limited, and are grouped around the extremes of toys and small devices on the one hand and giant solar furnaces on the other. The space heating of houses by sunlight looks like a logical step, but trials so far have been scattered and indeterminate. Nevertheless, the opportunity for large reductions in household fuel bills suggests that testing will hereafter be continued more actively.

Thus, while the breakthrough in solar energy is still incomplete, the theoretical applications have been convincingly demonstrated. Many companies have been carrying on active research in this field, among them **American Tel. & Tel., Lockheed Aircraft, Revere Copper & Brass, American Optical,** and **Libbey-Owens-Ford.**

Imagine Liquifying Natural Gas!

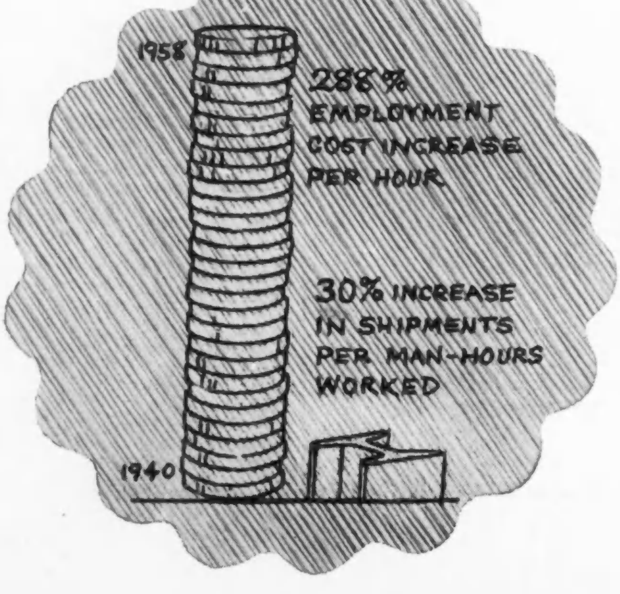
The shipment, back in January, of a tanker-load of liquid menthane from Lake Charles, La., to England demonstrated the practicality of another venture which once looked impossible, and heavier traffic now awaits only the construction of additional terminal facilities at both ends of the run. Menthane is natural gas cooled and greatly compressed until, at 258° below zero, it turns into liquid form and its volume becomes a mere 1/600 of normal. This extreme compressability makes it profitable to carry the fuel clear across the Atlantic to Europe, where the consumption of gas, derived only from coal, has been in a declining trend for years *(Please turn to page 522)*

When you discuss the steel industry



How well are the steelworkers paid ?

The average hourly wage for the steelworker in January 1959 was $3.03—84¢ higher than the $2.19 average for all manufacturing employees; 68¢ more than the average employee in durable goods industries; and 38¢ more than the autoworker. And these figures do not include the cost of vacations, holidays, pensions, insurance and other benefits which, in the case of the steel industry, amounts to 57¢ an hour—among the highest benefit payments in the country.

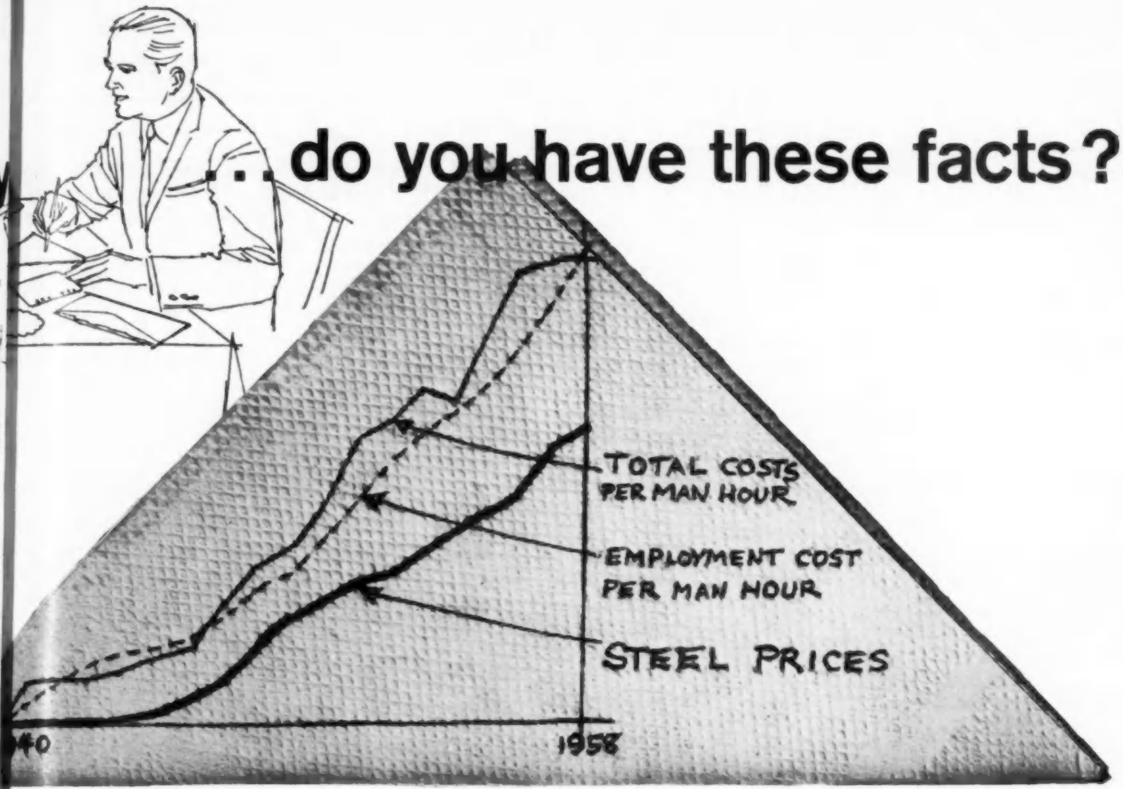


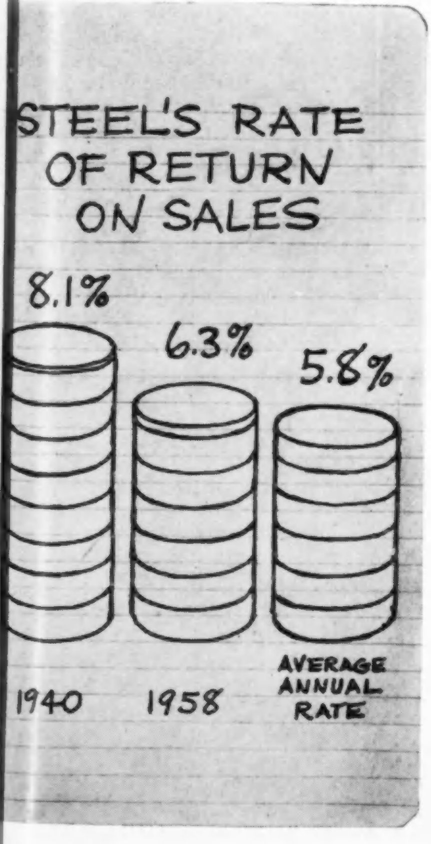
How do steel wage increases compare with increases in shipments per man-hour ?

From 1940 to 1958, steel companies' hourly wage and other employment costs increased 288% which has been nearly ten times the 30% increase in shipments per man-hour.

Source for all figures: American Iron and Steel Institute

. . . do you have these facts?





Are steel prices high ?

Since 1940, the price of finished steel mill products has risen at an average of about 5¾% a year but the total cost per man-hour and employment costs per man-hour have risen more—about 7½% a year. In spite of this, steel is one of our lowest priced materials. Carbon and alloy steels sell at an average of about 8¢ a pound.

Are steel profits too big ?

In 1940, the steel industry earned 8.1¢ per dollar of sales and in only one year since—1950—has this rate been equaled. In 1958, the rate was 6.3%. The average of 1940 through 1958 has been 5.8%. While the steel profit rate has diminished, employment costs per hour have climbed rapidly—a 288% increase since 1940. Increases in steel prices between 1940 and 1958 were required to pay for higher wages, taxes, material and other costs, and did not increase the rate of profit.

United States Steel

USS

TRADEMARK

The two organizations which arranged this initial shipment were **Continental Oil** and United Stock Yard of Chicago (privately controlled). Since natural gas can be picked up in this country at field prices ranging around 15c per thousand cubic feet (or in Venezuela, where Continental also has substantial reserves, at 4¢ per mcf) and still delivered to England at 70c per mcf, against a minimum cost of manufactured gas in that country of $1.60 per mcf, the advantages in this new traffic are obvious. But the liquified gas can be transported, of course from any area, and regions where natural gas is now flared away should provide an even more logical source of supply. Thus, if liquified gas transported by ship should find a really wide market, all of the international oil companies with large reserves in undeveloped countries should participate in the profits.

Will Wonders Never Cease?

The railroad industry is perhaps the last place many persons would look for impressive examples of automation, but it is only by the adoption of several radical new developments within recent years that the carriers have been able to hold freight rate increases to modest proportions while their wage levels have soared. Probably next after the advent of the Diesel locomotive, modern retarder yards are most responsible for having preserved the precarious solvency of the railroads. These yards consist essentially of a series of tracks fanning out from the lead track over the hump. Of course, gravity yards are by no means new, but the former manual switching and braking has now been replaced, in the most recent installations, by almost fully automated systems. By pressing a single button the towerman lines the route for each cut of cars, turning all intermediate switches. Simultaneously, trackside retarders reduce the momentum of passing cars to the exact speed necessary to reach their proper position on the classification track, making proper adjustment for the weight of cars, type of bearings, temperature, wind resistance and other conditions. Classification equipment and signalling are made almost exclusively by **General Railway Signal** and the Union Switch division of **Westinghouse Airbrake,** although **American Machine & Foundry** has also recently made a limited entry into the complicated interlocking field. While a fair number of these automated yards are now in operation, both classification and remote control signal installations are very far from the saturation point, so that even a moderate improvement in the financial outlook for the railroads should accelerate the sales of such equipment. Despite the railroads' problems it should not be overlooked that this is the form of transportation which, second only to pipelines, is most readily adapted to complete automation.

Obviously, no discussion of important technological break-throughs within the space of a single brief article can be complete, and others, perhaps more important than those described may have been omitted.

For The Investor

In seeking participation in these impressive new developments, the investor must make several decisions. First is the relative emphasis he wants to put upon new or experimental products, American Telephone and General Electric are engaged in larger research efforts than many pure research companies, but the results either of success or failure by one of these industrial giants will be thoroughly diluted by the magnitude of their overall operations. Again, in one of the smaller companies, it will make considerable difference at what stage entry is made: naturally, risks are higher but potential profits much greater in the very early period of development of any new product. While careful study and judgment in the selection of such issues is essential, the element of luck remains inescapable. But while it is only success that rewards the investor, the American public almost always wins, as failure as well as success teaches important lessons and points out the path for continued research. Thus, the constant willingness of investors to risk their funds in the search for new products and better methods has been no less important than our technological skills, in making the American economy what it is.

END

The Sugar Companies

(Continued from page 502)

phases. From this material the investor can evaluate the atmosphere under which he is working and determine further which stocks of which sugar companies, if any, he would like to hold or buy. We believe that it is important to point out a few pertinent facts surrounding investment in sugar companies. *In the first place it should be recognized that sugar stocks cannot be placed in a growth category. Since World War II none of the major companies have shown appreciable growth in earnings nor does this appear likely in the future.* Hence, sugar stocks cannot be purchased and held over a long period of time with the expectation of substantial capital gains.

What then is the appeal of sugar stocks? Properly timed purchases offer the investor an opportunity for short term to intermediate term capital gains for venture capital only.

Sugar stocks for the most part must be regarded as speculations. There are so many uncertainties, domestic and international, political and economic, which affect the fortunes of the various companies that they as a group are one of the most difficult to evaluate in respect to future earnings, outlook, long term trends, etc. With a few exceptions sugar companies have had rather erratic records and therefore their stocks are not desirable for conservative investment portfolios.

Specific Recommendations

Our recommendations are broken down into different categories and carefully classified in terms of potential objectives. It is important for the investor to evaluate carefully his investment goals before making any purchases in this speculative group.

National Sugar Refining provides a yield of better than $5\frac{1}{2}\%$ assuming that at least a 25 cent year end extra dividend is paid over the regular $2.00 annual rate. Earnings have adequately covered the current dividend rate since World War II. This might be considered one of the most conservative of the sugar stocks,

but 5½% today in a speculative issues does not represent an investment buy when government obligations are available at over 4% and good corporate bonds are above 5%.

American Sugar Refining is even somewhat more speculative at the present time. Stock has been depressed by the Cuban news. Nevertheless, the company should be able to cover its regular dividend out of earnings from its refining operations thus yielding better than 5%. Here again, compared with issues of higher caliber, the rate is not significant.

If the Cuban situation were straightened out this would probably cause some market rise in the stock, while any extra dividend paid would make the yield considerably more attractive.

Of the beet sugar processors, none of the stocks particularly catch our fancy. On a speculative basis **Great Western Sugar** looks the most interesting on the basis of its high yield, but from a conservative point of view **American Crystal Sugar** looks best, as this company is likely to have the most favorable earnings comparison when 1959 results are available to be matched against 1958.

Obviously there are great risks in the Puerto Rican sugar producers. **Central Aguirre** offers by far the best return of any of the three companies. **South Puerto Rico** sugar has *speculative appeal* if the fortunes of this group improve as a result of future developments because this stock has frequently been a spectacular market performer.

The Cuban sugar producer stocks are only for those most sophisticated speculators who are willing to take the greatest risks. These stocks are well depressed in anticipation of the difficulties they may encounter from the Cuban land reform program. Any betterment of this situation, could materially improve their prospects.

Conclusions

Sugar stocks are at best speculative, but the present world situation creates a background which can make this group potentially interesting for the speculator. Close study of all situations affecting these companies and the price of world sugar generally is essential. Possible developments and their effects both material and psychological have been covered in this article.

It is hoped that subscribers who asked for this story in the first place will find the information they have been looking for.

END

The 21 Newcomers to the New York Stock Exchange

(Continued from page 509)

Gulf Coast producing areas into Tennessee, Kentucky and Indiana. Some 2.9 million shares are owned by about 17,000 investors.

The meteoric career of the **Diners' Club,** listed February 16, about a month before its tenth birthday, is well known to investors as well as to clients using expense accounts. The idea of charging restaurant meals and other miscellaneous expenses through a single charge account caught on rapidly, and the company now employs 800 persons to operate its far flung facilities. About 1,800 stockholders own the 1.4 million shares of $1 par value.

One of the oldest companies recently listed is **Warner Company,** producer of building materials like ready-mixed concrete, precast concrete, crushed stone, gravel and lime products. WAR made its bow at $28.12 a share on a transfer from the counter market. About 3,700 stockholders own 1.1 million shares of $10 par value. Another graduate from the counter market is **Kellogg Company,** whose cereal products are nationally known. Using the once popular K symbol, the stock began May 12 at $41,75 a share. About 8,000 stockholders own the 8.9 million shares of 50 cents par value.

Two other companies whose shares previously were traded over the counter joined the "big board" with listing of about 913,000 shares of **White Stores, Inc.,** operating a chain of company-owned and franchised auto accessory stores in the Southwest; and **Chock Full O'Nuts Corporation,** which operates a chain of snack bar type of luncheonettes and distributes a widely advertised coffee. The latter has 800,000 shares of $1 par value.

Globe - Wernicke Industries, Inc., which moved over from the American Stock Exchange in May, makes a variety of products in three divisions and three subsidiaries, including metal stamp-

ings and large dies for the automotive, farm equipment and appliance industries, as well as office furniture and equipment. The $5 par stock, with 828,000 shares outstanding, began at $24 a share. A somewhat similar manufacturer is **Rubbermaid, Inc.**, which makes vinyl and rubber-coated kitchen and bathrooms accessories, automotive products, plastic paints and many other items. Trading in the 1.3 million shares of $1 par value commenced late last month. Another erstwhile counter issue made its bow June 29 when trading started in **Kendall Company** shares at 62½. The company, which listed about 1 million shares of $16 par value, makes surgical dressings, industrial tapes and elastic specialties.

Rochester Telephone Corporation, whose 1.4 million shares of $10 par were listed March 30 at $27.25 a share, is considered the largest unaffiliated phone company in the country.

Loew's Theatres, although a new name on the list, is a long established business which once was an integral part of Loew's Inc., which, as a result of litigation, separated its production and exhibition activities. All in all, the first half of 1959 has seen an interesting group of companies join the 1,200 common stocks on the New York Sock Exchange. END

The Investment Appeal of Bank Stocks Today

(Continued from page 490)

the 1940's to find banks with 75% to 80% of their assets in cash and U. S. Government securities. Interest rates continued to be pegged at very low levels throughout the war and postwar years until just about the end of the decade. When it is realized that for 13 years, from 1934 to 1947, the bank's prime lending rate remained unchanged at 1½%, it is remarkable that the commercial banks of the country were able to do as well as they did in maintaining earnings during that period. It is no wonder that during most of those years bank stocks sold at discounts from book values and came to be regarded as chiefly income securities with negligible growth or appreciation prospects, to be brought solely on a yield basis.

It was not until the decade of the 1950's that banks and bank stocks began to emerge from their hibernation. The Federal Reserve-Treasury Accord of March 1951 made it possible for money rates to rise or fall with demand and supply factors. At the same time loan volume began to increase. From the end of 1949 to the present, business loans of New York City banks and of the member banks in 94 reserve cities have risen about 130% and the prime lending rate has been increased from 2% to 4½%. With higher interest rates and more loans, earnings and dividends began a steady climb. For twelve major New York City banks, aggregate net operating earnings rose over 100% from 1950 to 1958, and dividend declarations increased 81.4% in this same period. It is not remarkable that under these conditions the average rate of return earned on capital funds rose from less than 6% to around 9% and that market prices of these stocks doubled, so that they began to sell at premiums over, rather than discounts from book values.

With the tremendous increase in institutional interest in common stocks which has developed during the 1950's, bank stocks have come in for substantially more attention. Pension funds, trust funds, savings banks, investment trusts as well as insurance companies, universities, and specialized funds of many types have come into the market for bank stocks. In 1950 the Massachusetts legislature enacted an amendment to that state's banking laws which permitted Massachusetts savings banks for the first time to invest in certain out-of-state bank stocks which met specified tests.

Banks, too, Rolled With the Punch of Change

With the rapid population growth and economic expansion of the nation during the 50's, banks in all parts of the country have found themselves faced with many new problems. In order to accomodate the credit and banking needs of new suburban population centers, as well as for other reasons, the banks also have entered upon a phase of branch banking and growth through mergers, which promises to continue

for many years. New legislation, such as the Bank Holding Company Act of 1956, and proposed new state laws in New York and in certain other states, appear to be enlarging the growth potential of banks by permitting them to expand and follow their customers over and beyond borders which have heretofore restricted them. Among the New York City banks there have been several important mergers within the last five years, as a result of which the number of institutions in that city has declined by one-fourth. Now the proposed combination of Chemical Corn Exchange Bank and New York Trust Company is expected to reduce the number of institutions by one more. If the proposed new banking legislation in New York is enacted, there will undoubtedly be many more combinations of banking institutions. Some may band together under the holding company arrangement and some may merge.

Conclusion

These comments lead us up to a consideration of the outlook for banks and bank stocks in the decade of the 1960's which now lies immediately ahead of us. *Since banks tend to mirror the conditions of the economy in which they are functioning, their prospects will hinge directly on the outlook for business and economic conditions generally over the next several years.* A high level of business activity will make for a large volume of loans and relatively high interest rates. If the predictions of many economists are realized insofar as they envision a 200 million population and a $600 billion gross national product within the next five or six years, there will be substantial increases in the money supply, including bank deposits and earning assets, and earnings of banks will show good gains. END

The European Common Market

(Continued from page 499)

on securities exchanges with over 1 billion francs in assets publish annual and semi-annual reports. American investors in Euromarket also will benefit from the strong potential for long-term growth in consumer goods industries there. *Advantage for share owners rests with great American companies having important foreign holdings.*

U. S. operations within the Common Market can be made more profitable by utilizing every tax break available. Indications are that there will be no tax applicable to the entire area even when Euromarket is fully matured. It is quite possible that American manufacturers will be able to arrange trade inside the community through a base company located outside of the Common Market in a country that imposes little or no tax on foreign income. Switzerland could easily be the logical choice. But a careful estimate first must be made as to whether products manufactured in one or more of the Six and sold by a concern outside of Euromarket will be given the benefit of lower tariffs.

Our Import-Export Trade

The question now remains, what should the U.S. do about the effect that Euromarket will make on our import-export trade. First, it must be remembered that this country has urged and encouraged European unity since 1945. Top economists here strongly recommend that the U. S. should assist the Common Market Six during the difficult transition period ahead since vital American interests are involved in the manner in which Euromarket develops.

These analysts believe that Washington should enter international negotiations with a view towards making the full amount of tariff restrictions authorized by the Trade Agreements Act. Furthermore, they recommend that Washington should also work on a reduction of European tariffs against the rest of the world in order to alleviate the discriminatory effects of the Common Market.

Financial Impact We Are Already Feeling

It was quite natural that currency convertibility, end of European Payments Union, and the growing strength of Western Europe's economies and investment opportunities at home, should produce a shift of funds from the United States to Europe.

As a result, the main problem facing U. S. commercial banks, brought on by the formation of Euromarket, is the present policy of Europe's central banks and private institutions to transfer funds from time deposits in this country to short-term investments now yielding a greater return. This has intensified an outflow of gold that understandably has produced concern.

That Discussion About A Free World Market

The advocates calling upon the United States to foster a free world market are way ahead of the times. With the world in a revolutionary state and a dynamic trend toward nationalism, it is most unrealistic to suggest, as many do, that this country take the lead in such a project.

It would be economic suicide for us to do so, for it would mean the closing up of our factories, a serious reduction in wages, and a lowering of our standard of living that would go down to levels now existing in the less industrialized countries. The very fact that the members of the Common Market believe it will take 12 to 15 years to adjust to each other economically, is sufficient reason to give pause to those who are urging the United States to tear down our tariff walls.

As a matter of fact, there is no danger of a world market under today's conditions. I doubt whether Great Britain would agree to permit all countries to share on equal terms in her Commonwealth markets, or whether Germany and France would permit Britain to share equally in their Common Market unless Britain gave them the same full trade advantages.

The illogic of the free market advocates is exposed for what it is—a great lack of realism. END

Prudent Market Policy Now

(Continued from page 483)

traction in institutional buying of equities. In this connection, it may be interesting to observe the trend of market behavior of low-priced issues charted regularly in the illustration accompanying this article showing Market Measurements. Incidentally, the favorable spread betwen Demand and Supply contracted slightly last week with an advance in the Selling Pressure of 3 points while Buying Power remained static. In the preceding week the divergence widened 8 points, so that for the fortnight since our previous issue the Demand factor had an advantage of 5 points net.

As we go to press, a protracted steel strike would adversely affect the economy, increasing unemployment in various industries, and thus a cautious market attitude is prudent, especially in the light of the recent rise which has discounted favorable prospects and higher earnings.

Monday, July 13, 1959

For Profit And Income

(Continued from page 511)

rise in the optimistic market we now have. Taking all factors into account, WX is the more overpriced of the two issues.

Growth Stocks

Most equities popularly rated as growth stocks—mainly in such fields as electronics, chemicals, drugs, and photographic equipment, but including various "special situations" — have been reaching for the sky. Their prices in many cases are 30 to 40 or more times earnings, with few people paying any attention to dividend yields which in quite a few instances are nominal or little more. To find selections with ratios in the general vicinity of 20 times earnings, you have to pass up most of the issues most widely held by institutional funds. Here are four examples and their approximate current price earnings ratios: Air Reduction 20, Monsanto Chemical 21, McGraw-Hill 18, Warner - Lambert 19.

Relative Strength

At this time, stock groups faring better than average, including some partial rallies from previous dips, are principally automobiles, containers, drugs, farm equipment, industrial machinery, meat packing, oils, paper, radio-television, tires and tobaccos. Groups faring worse than the market include air transport, coal, coppers, gold mining, machine tools, metal fabricating, motion pictures, sugar and utilities.

Stocks

Individual stocks showing outstanding strength at this time are too numerous to invite even partial listing, but are notably numerous in such lines, among others, as autos and auto parts, chemicals, machinery, textiles and tires. The conspicuous — and uninviting — laggards are less numerous than in some time, but still there are plenty of them. Some are: ACF-Wrigley Stores, Alpha Portland Cement, Amerada, American Metal Climax, American Smelting, Anaconda, Boeing, Burroughs, Decca Records, Food Fair Stores, Carrier Corp., Container Corp., Freeport Sulphur, Kress, Great Northern Paper, Magma Copper, Lockheed Aircraft, Republic Aviation and Sunshine Mining.

Air Reduction

This long-established producer of industrial gases (mainly oxygen) and arc-welding equipment had a relatively static position for an extended period prior to aggressive expansion and diversification—the latter principally in acetylene and acetylene chemicals —in recent years. Expansion has paid off and is continuing to be stressed. In the 1955-1957 period sales rose strongly to a new peak and profit considerably more than doubled to $4.31 a share, well above best earlier levels. On moderately lower sales, 1958 net fell to $3.44 a share. On record 1959 volume, it may approach $4.60 a share. Dividends are at $2.50. The potentials for further growth in nearby years appear at least in line with those of the average chemical company. (The stock is classed as a chemical for lack of a more apt description). At 90 now, is priced around 20 times earnings. That can not be called cheap; but, as growth stocks go today, neither is it extreme. If you are willing to look two or three years ahead, readily possible profit growth should make present buying amply rewarding. END

Book Reviews

Elizabeth The Great

BY ELIZABETH JENKINS

Countless books have been written about Elizabeth I of England, but rarely has Elizabeth the woman been presented with the vividness, authority, and perception which inform this fascinating and important work. Miss Jenkins brings the great queen, her court, and the whole exciting age to which she gave her name brilliantly to life.

There was something almost bewitched in Elizabeth, as though she came from a changeling world, cold, passionate and peculiar. She was only two when the head of her mother, Anne Boleyn, was cut off, and at eight she said, "I will never marry." Prince Edward's letter to his dear sister Elizabeth, after they had been ruthlessly separated, shows that both children early knew their dangers; he wrote: "I hope to visit you soon, if nothing happens to us in the meantime."

The young Elizabeth was never entirely safe, her position rarely secure. The advisers of her Catholic sister, Mary Tudor, urged that she be put to death, saying, "The Princess Elizabeth is greatly to be feared, she has a spirit full of incantations." But Elizabeth outlived Bloody Mary and came to the throne—even though at her coronation no bishop could be found to put the crown on her head.

Queen at last, Elizabeth brought with her to the throne extraordinary gifts which were manifest from the very beginning of her reign: an unfailing instinct for choosing her advisers; the great personal magnetism which made her an object of adoration to her subjects; the financial genius which contributed so largely to the later prosperity of the realm; and the apparent vacillation which was to be such a strong weapon in her diplomacy.

Elizabeth must surely have been one of the most remarkable women who have ever lived. Her fierce and consuming passion to play her role as Queen of England, her great physical energy, her fantastic vanity, her strange mixture of personal cowardice and extreme bravery, her steadfast loyalty to her trusted friends and her brutal treatment of those who offended her—everything about her is interesting. Miss Jenkins has done much to bring us closer to this woman who was as great as she was complex. *Elizabeth The Great* is enthralling reading from the first page to the last.

Coward-McCann $5.00

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These new forces will have profound investment significance for they will invigorate many companies—but often at the expense of less able competitors. TO YOU, as an investor, this adds up to an increased need for continuing investment research and capable professional counsel.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1959 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

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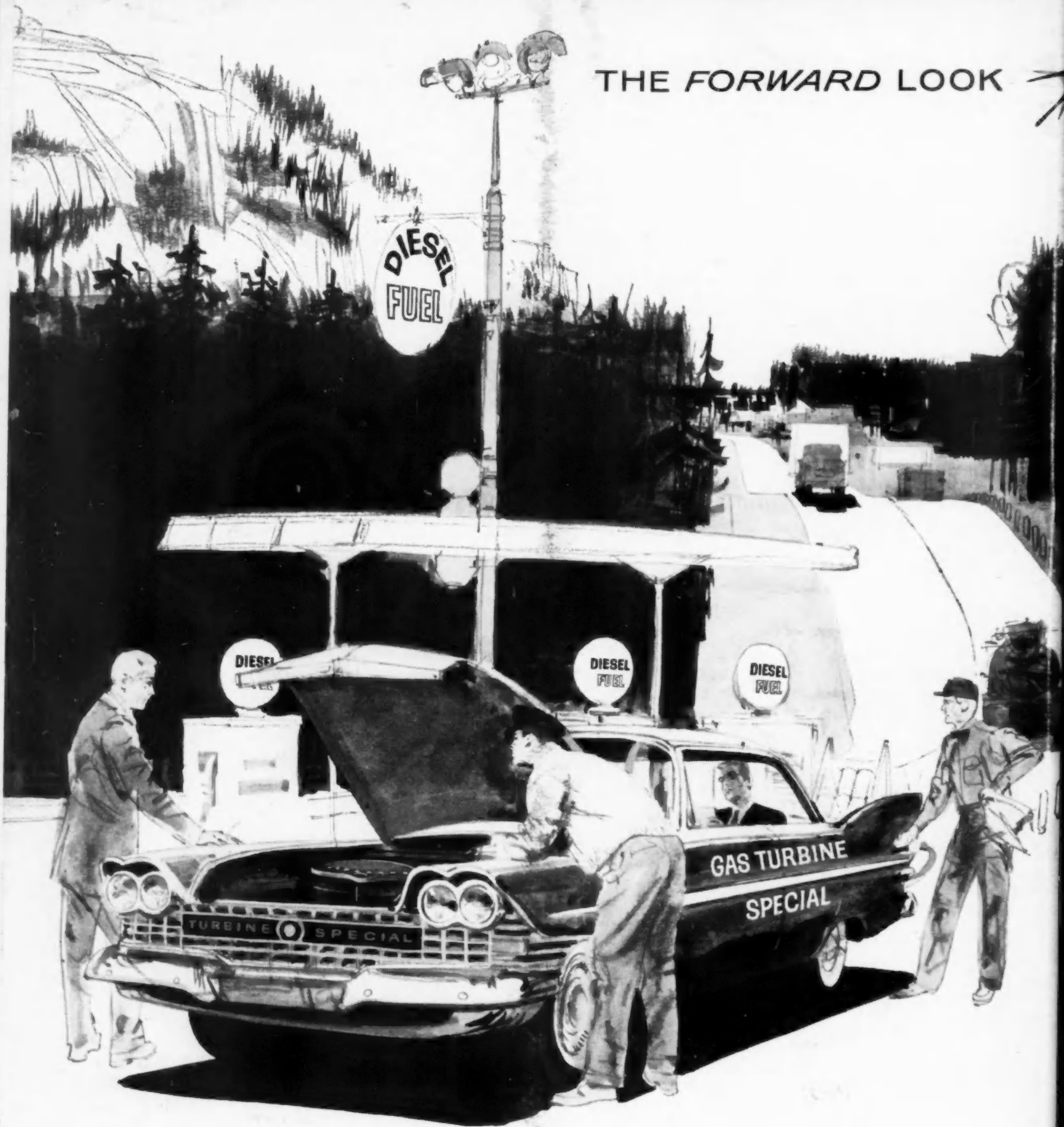
THE *FORWARD* LOOK



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